

GAO

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

November 1992

TAX
ADMINISTRATION

Implementation of IRS
Employee Suggestions



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General Government Division**B-251064**

November 24, 1992

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

Dear Mr. Chairman:

This report responds to your request that we review whether the Internal Revenue Service (IRS) was making cash awards to employees for suggestions but not implementing the approved suggestions, thereby failing to take advantage of potential savings offered. The IRS' employee suggestion program encourages employees to suggest ways to improve operations and gives cash or other awards if the suggestions are adopted.

IRS' employee suggestion awards program is a comparatively small portion of the cost of IRS' overall incentive awards program. For example, in fiscal year 1990, suggestion awards were less than 1 percent of the total of almost \$39 million paid for all IRS incentive awards programs.

Results in Brief

IRS does not routinely monitor or document the implementation of approved suggestions on an IRS-wide basis. Consequently, it was not practical to determine the extent that approved suggestions were being implemented throughout IRS. We did, however, test the process in three IRS Southeast Region offices and found that almost all approved suggestions were implemented during a recent 31-month period.

A recent IRS study concluded that the employee suggestion program needed a number of improvements to increase employee participation. The report said the program suffered from a lack of management support, poor training for personnel who administer the program, inadequate publicity, and untimely evaluation of suggestions. IRS is taking steps to address these shortcomings.

Background

The Government Employees Incentive Awards Act of 1954 as amended, currently codified as Chapter 45 of Title 5, U.S.C., established the incentive awards program in the federal government, including the employee suggestion program. The incentive awards program allows federal agencies to reward employees for their meritorious achievements or

suggestions, thus encouraging employees to contribute to the efficiency, economy, or improvement of government operations.

Section 4506 of Title 5, U.S.C., requires the Office of Personnel Management (OPM) to regulate the employee suggestion program. The regulations are contained in 5 C.F.R., part 451, which encourages agencies to

- budget adequately for awards, staff, and support services to assure prompt action on awards decisions;
- establish effective promotion and publicity activities to encourage employee participation; and
- report annually on program activity to OPM.

Under IRS program guidelines, a suggestion must have been approved, at least in part, by the benefiting organization before an award may be granted. A suggestion becomes the basis for an award when it is accepted by an approving official, even though it will not be placed into effect until a later date. However, the guidelines state that a suggestion should be adopted within 2 years after acceptance for consideration.

The employee suggestion program is a management device through which employee assistance can be obtained in accomplishing an important management responsibility—to improve the efficiency and effectiveness of operations.

IRS' employee suggestion program is managed within each IRS organizational unit by a suggestion program coordinator. Suggestions are assigned for review to evaluators with special knowledge of a suggestion's subject matter. Employees submit written suggestions to the program coordinator, who forwards them for evaluation to the appropriate functional area. Decisions to adopt suggestions and reward employees are made by the functional area manager at the level the suggestion is to be implemented (i.e., district, region, or headquarters). Suggestions with possible applications beyond the original level are forwarded to and evaluated by the appropriate functional office at the next IRS organizational level. For example, a suggestion originating in a district office but which has possible regional application is forwarded to the functional coordinator at the regional office for evaluation. The regional office evaluator decides whether to recommend it for regional implementation. Similarly, if the suggestion has potential IRS-wide

application, the regional office forwards it to the National Office for consideration.

Employees who submit suggestions are eligible to receive a monetary award. To qualify for a monetary award, an approved suggestion must have an estimated annual savings of at least \$500 or other intangible benefits. Using a standard guide, suggestion evaluators establish the amount of an award, based on either the estimated dollar savings or intangible benefits such as improving quality and helping taxpayers. For example, when a suggestion provides estimated savings of \$10,000 or less, the guide calls for the award to be 10 percent of savings. The award for a suggestion that provides intangible benefits is based on the estimated value and the number of offices that could implement the suggestion. For example, the guide calls for an award of \$50 to \$100 for a suggestion having limited application with moderate value.

While not a part of the employee suggestion program, IRS has established other avenues for employees to suggest ways to improve IRS operations. (Information on these other avenues is provided in app. I.)

Objectives, Scope, and Methodology

As agreed with your office, our objectives were to follow up on approved suggestions that received cash awards to determine if the suggestions were implemented, and if not, why.

To do our work, we reviewed IRS-wide statistical data on the suggestion program for the 5-year period from fiscal year 1987 through fiscal year 1991. We did not verify the accuracy of the data. We reviewed IRS studies of the program and related improvement efforts. We also interviewed IRS officials about the management of the program.

We reviewed all suggestions, 42 in total, made by employees from the Southeast Regional Office, Atlanta District Office, and the Atlanta Service Center that received cash awards during fiscal years 1990, 1991, and 1992 (through April). National Office officials familiar with the IRS-wide suggestion program said the programs we reviewed were typical of all IRS field office suggestion programs. We obtained and reviewed individual employee suggestion case files to determine whether the suggestions were implemented and, if so, how they benefited IRS and taxpayers. In addition, we determined how long it took IRS to evaluate, approve, and implement the suggestions. (See app. II.)

We did our work from May to August 1992 in accordance with generally accepted government auditing standards.

Employee Suggestions Processed and Estimated Benefits

IRS approved 4,722 or 25 percent of all suggestions evaluated in fiscal years 1987 through 1991. Estimated savings for these suggestions totaled \$38,360,571, while related employee awards totaled \$1,226,131. Employee awards averaged \$260 per suggestion, and IRS estimated an average saving of \$31 for every dollar paid to employees. Additional unquantified benefits were also reported.

Each year, IRS reports to OPM on its incentive award programs. The report is based on data collected by the National Office from IRS district offices, regional offices, and service centers and includes data on the number of suggestions received and adopted. Our analysis of IRS' reports to OPM for fiscal years 1987 through fiscal year 1991 shows that over the 5-year period, IRS' overall approval rates for suggestions submitted by employees ranged from 22 percent to 28 percent. Table 1 shows the number of suggestions processed, approved, and disapproved and the approval rate for each year during the period, as well as the averages for each category over the period.

Table 1: Approval Rates for Fiscal Years 1987 Through 1991

Fiscal year	Suggestions			Approval rate
	Processed	Disapproved	Approved	
1987	2,681	1,930	751	.28
1988	3,084	2,257	827	.27
1989	4,630	3,629	1,001	.22
1990	4,095	3,051	1,044	.25
1991	4,038	2,939	1,099	.27
Average	3,706	2,761	944	.25

Source: IRS' Annual Incentive Awards Reports

IRS' report to OPM also included data on monetary and nonmonetary awards granted for employee suggestions and, in terms of monetary awards, the aggregate amount awarded for those suggestions and an estimate of the resulting tangible benefits. Over the 5-year period we reviewed, IRS reported to OPM that, overall, tangible annual savings from employee suggestions ranged from \$856,356 to \$26,416,233 a year, averaging about \$7.7 million annually. The amounts paid to the employees in each of the 5

years ranged from \$188,630 to \$347,552, averaging about \$245,226 annually. Table 2 shows (1) IRS' estimated savings in each of the 5 years and the average savings for the period, (2) the amount IRS awarded each year and the average amount awarded during the period, and (3) the ratio of savings to awards each year and for the period.

Table 2: Ratio of Estimated Savings to Awards for Fiscal Years 1987 Through 1991

Fiscal year	Dollar savings	Award amount	Ratio (savings/awards)
1987	\$ 3,303,767	\$ 188,630	\$17/\$1
1988	856,356	194,635	4/1
1989	5,575,103	347,552	16/1
1990	26,416,233	227,330	116/1
1991	2,209,112	267,984	8/1
Average	7,672,114	245,226	31/1

Source: IRS' Annual Incentive Awards Reports

IRS Implementation of Approved Suggestions Not Tracked

IRS does not centrally track whether an approved suggestion is implemented or whether suggestions approved in one office are applicable to or implemented in other offices. Thus, we could not readily determine the extent IRS was implementing approved suggestions on an IRS-wide basis. Nonetheless, our review of suggestions that were recently approved in three IRS offices in the Southeast Region indicated that almost all approved suggestions at those locations were or will be implemented.

At the Southeast Regional Office, the Atlanta Service Center, and Atlanta District Office, we reviewed all employee suggestions approved for a cash award between October 1989 and April 1992. IRS has either implemented or plans to implement 40 of the 42 suggestions that we reviewed. By August 1992, 32 suggestions had already been implemented, 8 were awaiting implementation, and 2 were not likely to be implemented. The 42 suggestions we reviewed had a total projected savings of \$130,792 and a total award amount of \$13,863. Additionally, all of the implemented suggestions provided additional unquantified benefits according to the IRS evaluation. The five most often cited benefits were saved time (19), improved quality (17), helped taxpayers (9), improved public relations (8), and saved materials (8). (Summary information on each of the approved suggestions is contained in app. II.)

One of the suggestions not implemented concerns the contents of certain press releases prepared by an IRS public affairs office. An employee received \$100 for suggesting that in press releases about criminal prosecution cases, IRS should clearly identify the injured party and attribute the prosecution to the "United States" instead of "IRS." While neither the suggester nor the suggestion evaluator is currently with the public affairs office, a current official said that releases generally do not attribute the origin of a criminal prosecution and the suggestion should probably not have been accepted.

The other suggestion that was approved but not implemented was to adopt a uniform bank deposit analysis form. The employee who received \$200 for the suggestion planned to use the form but transferred to another office and the form was never used, according to an IRS official.

The suggestion with the greatest estimated savings, \$53,085, was to revise service center procedures for routing cases to the appeals offices. This suggestion was made by two employees, a Computer Assistant and a Case Reviewer, who each received a \$1,000 award. They suggested that service centers change procedures for updating computer records, thereby lessening the chance of sending administrative files to the wrong appeals office. The suggestion was approved by the National Office for IRS-wide implementation.

Suggestion Program Problems Recognized

Relatively few IRS employees participate in the suggestion program. For example, in fiscal year 1990, IRS' employee participation rate was about 3 percent, compared to average governmentwide and private sector rates of about 5 percent and 13 percent, respectively. In January 1991, IRS, concerned with the low level of participation, formed a national Quality Improvement Process (QIP) team to identify causes for low employee participation in the suggestion program and to recommend ways to increase participation and to improve program administration.

In its September 1992 report, the QIP team cited insufficient management emphasis, publicity, and training, as basic reasons for low employee participation. Specifically, the QIP team reported the following:

- Many suggestion program administrators and evaluators were critical of IRS management support. Over half of the administrators and evaluators contacted by the QIP team said IRS management gave the suggestion

program moderate to no support. Almost all said they received no recognition for the time they spent evaluating suggestions.

- Program management information systems vary by location. As such, IRS management does not receive routine status reports on the number of suggestions submitted, approved, and implemented. Additionally, program costs and benefits are not accumulated and reviewed by management, and 40 percent of the program coordinators contacted said they prepared no status reports.
- Lack of publicity was the concern most often cited by the suggestion program personnel. Over half the administrators contacted said the program received inadequate publicity, and almost half said they would advertise the program more to increase employee participation.
- Untimely evaluations and lack of feedback to suggesters were problems most often cited by coordinators. Almost one third of the coordinators contacted by the QIP team said changes were needed to reduce the time it took to evaluate employee suggestions and provide improved feedback to the employees.
- Program participants—evaluators, administrators, and employees—all said that better training and guidance were needed. Many of the evaluators and over half the suggestion program coordinators said they had no training on the employee suggestion program.

An Atlanta District Office QIP team is also looking for ways to increase employee participation in its suggestion program. The team has concluded that lack of management support, untimely evaluations, and inadequate employee recognition are primary reasons for low employee participation. Atlanta District employees and managers we interviewed who were involved with the suggestion program generally agreed with the QIP team's findings.

Suggestion Program Improvements Planned

IRS is taking steps to strengthen the suggestion program. In a May 15, 1992, memorandum, IRS' Assistant Commissioner for Human Resources and Support announced the intent to revitalize the program through a concentrated effort to improve program administration. The Assistant Commissioner noted that IRS plans to provide timely evaluations, improve coordination and follow-up, and provide better feedback to the employees. IRS is developing new training for program coordinators, suggestion evaluators, and managers. The coordinator training will provide new tools and guidelines for managing the suggestion program and is planned for use in fiscal year 1993. The suggestion evaluator training is to be a self-instructional course intended to enable evaluators to perform a

cost-benefit analysis and to evaluate suggestions using specific criteria. The training is expected to be available by November 30, 1992. A segment on the IRS suggestion program is expected to be incorporated into IRS managers' training during fiscal year 1993.

Finally, recognizing the shortfalls of current management information systems, IRS is planning a new automated system to manage its suggestion program, building on the automated system currently used in its Western Region. In October 1992, IRS was developing the system requirements. The new system is expected to provide systematic processing of suggestions and status monitoring, including implementation tracking and collection of IRS-wide suggestion program data. IRS plans to implement the system first in the National Office and eventually in all offices.

Agency Comments

We discussed this report with IRS program officials, who generally agreed with the information presented. We included their suggested technical changes when appropriate.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time we will make copies available upon request. The major contributors to this report are listed in appendix III. If you or your staff have any questions concerning the report, please call me at (202) 275-6407 or Bob McArter, Assistant Director, at (202) 272-7904.

Sincerely yours,



Jennie S. Stathis
Director, Tax Policy and
Administration Issues

Other Avenues for Making Suggestions

IRS has several other programs that allow employees to suggest ways to improve productivity, quality, procedures, systems, and forms, as summarized below.

Joint Quality Improvement Process

This program promotes employee participation in decisionmaking by encouraging employees to suggest improvements to systemic work processes. To expedite the process and maintain objectivity, employee suggestions are submitted directly to a quality council rather than being evaluated through normal management channels. The council decides whether the suggestion merits further study. If accepted for study, the council notifies the employee and appoints a team to study all aspects of the suggestion. The employees who make the suggestions may or may not serve on the team, and they may or may not be recognized or rewarded for their suggestions.

Procedures/Systems Change Request (Form 5391)

Employees may use this form to suggest changes in internal management documents and systems. Employees often use it to alert management of changes needed in the Internal Revenue Manual, such as typographical errors, outdated materials, and inconsistencies between different sections. Employees do not receive awards for these suggestions.

New or Revised Form/Envelope Request (Form 1938)

Employees may use this form to request new forms or suggest changes to existing forms. The suggestions are evaluated when the form comes up for its periodic review and update. Employees do not receive awards for these suggestions.

Summary of Suggestions Receiving Cash Awards, Southeast Regional Office, Atlanta District, and Atlanta Service Center, October 1989 Through April 1992

Suggestion	Date Initiated	Date approved	Implementation level	Date implemented	Award amount	Estimated savings ^a
1. Change procedures for routing cases to the appeals office.	8/89	1/91	National	7/90	\$2,000	\$53,085
2. Change procedures for processing employee travel refunds.	1/91	7/91	Regional	8/91	100	100
3. Clarify distribution transmittal sheets.	12/89	10/90	National	1990	500	0
4. Publish regional office telephone directory.	9/91	11/91	Regional	12/91	100	0
5. Purchase multiline telephone equipment.	4/90	7/90	District	12/90	500	5,000
6. Add information into existing lien.	3/89	11/89	District	1/90	643	6,432
7. Use standard form when computing interest on unpaid taxes.	7/89	11/89	District	7/89	50	0
8. Use standard staff evaluation form.	11/89	11/89	District	1/90	200	0
9. Automate field office letters to taxpayers.	1/90	2/90	District	3/90	300	0
10. Revise press releases on criminal prosecution cases.	1/90	3/90	N/A ^b	N/A ^b	100	0
11. Use standard form when analyzing bank deposits.	2/89	5/90	N/A ^b	N/A ^b	200	0
12. Establish procedures for monitoring tax liens.	11/89	1/91	National	8/90	100	0
13. Reuse ink stamps.	2/91	4/91	District	4/90	150	1,300
14. Revise refund questionnaire.	5/90	1/91	Regional	1/91	50	0
15. Provide standard tax kits to nonprofit organizations.	4/89	12/90	District	7/91	100	0
16. Revise local telephone instructions.	11/89	10/90	District	11/90	25	0
17. Develop standard form for releasing taxpayer medical records.	1/90	11/90	N/A ^b	N/A ^b	100	0
18. Revise local travel report.	7/90	8/91	District	9/91	50	500
19. Revise procedures for monitoring taxpayers who fail to keep appointments with Examination Division.	9/90	10/90	District	9/90	75	0
20. Revise Problem Resolution Office record keeping.	6/89	8/91	N/A ^b	N/A ^b	500	0
21. Change procedures to ensure that taxpayers do not pay twice for a pension plan determination.	5/90	10/90	District	4/90	300	0
22. Automate letters used by Computer Audit Specialists.	4/89	12/91	Regional	11/91	250	0
23. Purchase stands for computer printers.	11/91	1/92	District	1/92	100	0
24. Revise time and attendance form.	9/91	12/91	District	1/92	100	0
25. Develop telephone procedures for assisting Spanish-speaking taxpayers.	8/91	12/91	District	11/91	50	0
26. Revise employee performance record.	2/90	1/92	National	4/92	500	0

(continued)

**Appendix II
Summary of Suggestions Receiving Cash
Awards, Southeast Regional Office, Atlanta
District, and Atlanta Service Center, October
1989 Through April 1992**

Suggestion	Date Initiated	Date approved	Implementation level	Date Implemented	Award amount	Estimated savings ^a
27. Provide educational programs on estimated taxes.	10/91	2/92	District	2/92	50	0
28. Better promote electronic filing of employee pension plan returns.	3/91	1/92	National	3/92	1,000	20,000
29. Correct faulty computer program.	9/89	1/90	Regional	9/89	250	1,443
30. Develop program to check audit computations.	2/91	N/A ^c	N/A ^b	N/A ^b	500	0
31. Microfiche Detroit Computer Center reports to service centers.	3/90	3/91	Local	3/91	500	18,301
32. Revise procedures for tracking computer runs and any related problems.	11/90	1/91	Local	8/89	25	0
33. Modify system for monitoring collection letters to taxpayers.	10/88	10/90	National	1/91	500	0
34. Use employees rather than contractors to replace desk locks.	5/91	5/91	N/A ^b	N/A ^b	140	N/A ^c
35. Change procedures for updating computer records on tax protesters.	5/85	5/91	National	4/85	1,000	0
36. Change procedures for adjusting taxpayer accounts.	10/86	10/90	National	7/91	1,000	10,000
37. Require new employees to acknowledge receipt of insurance requirements.	8/90	1/91	N/A ^b	N/A ^b	100	0
38. Revise tax assessment form.	3/91	11/91	N/A ^b	N/A ^b	150	0
39. Improve batch processing of the automated underreporter system.	N/A	10/91	Local	2/90	50	0
40. Provide preprinted quality control forms.	12/91	1/92	Local	2/92	75	750
41. Change data entry procedures.	1/92	N/A ^c	N/A ^b	N/A ^b	430	4,320
42. Automate taxpayer telephone contact file.	1/92	1/92	N/A ^b	N/A ^b	\$950	\$9,561

^aIRS' evaluation of the suggestions also described one or more unquantified benefits such as saving time, improving quality, saving materials, improving public relations, improving morale, helping taxpayers, saving storage space, improving teamwork, reducing fatigue, and reducing safety hazards.

^bAs of May 8, 1992, the suggestion had not been implemented.

^cInformation is not available.

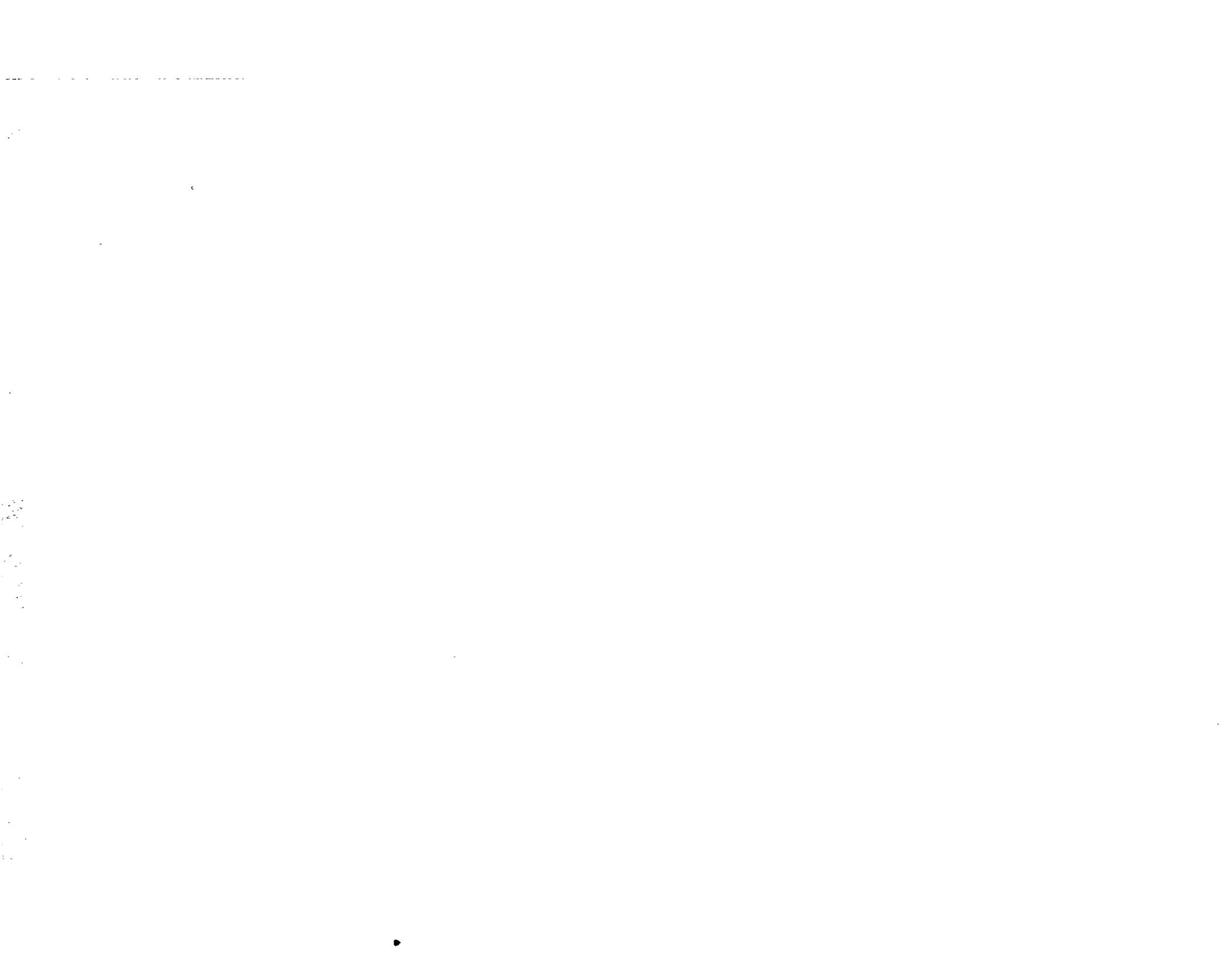
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