

GAO

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

June 1994

**TAX
ADMINISTRATION**

**More Improvement
Needed in IRS
Correspondence**



General Government Division

B-255524

June 1, 1994

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 evaluate the Internal Revenue Service's (IRS) handling of taxpayer correspondence. The report discusses IRS' efforts to improve its correspondence with taxpayers and recommends additional improvements.

Results in Brief

Over the past 6 years, we, IRS, and others have cited delayed, inaccurate, incomplete, and confusing responses to taxpayer correspondence as chronic IRS problems. IRS has made progress in correcting its correspondence problems by adopting standards for quality and timeliness and by expanding quality reviews of outgoing correspondence. Those measures seem to have helped because IRS reported that from October 1991 to March 1993 its ability to respond to taxpayers within 30 days had improved from 70 percent to 85 percent and that the accuracy of its correspondence had improved from 87 percent to almost 90 percent.

Despite the improvements, some problems still exist. Our review of 1,894 closed correspondence cases at 2 service centers—Atlanta and Cincinnati—showed that 15 percent of the cases were incorrect, unclear, incomplete, or nonresponsive.¹ Also, 11 percent of the cases resulted from taxpayers trying to resolve something left unresolved from earlier contacts with IRS. Problems such as these increase IRS' costs, frustrate taxpayers, and ultimately hinder taxpayers' compliance with the tax laws.

In this report, we identify several opportunities for IRS to further improve its responsiveness to taxpayers. To illustrate, in some cases, IRS employees did not respond to taxpayers' requests for assistance because IRS procedures do not require a response. Two specific examples of situations in which IRS does not require a response but we believe it should are taxpayers' requests to (1) delay filing a tax return and (2) change the terms of an installment agreement. By not responding in such situations, IRS can

¹We called IRS' correspondence cases incorrect when IRS provided wrong information to the taxpayer, unclear when IRS' response was confusing, incomplete when IRS' response did not address all of the taxpayer's questions and concerns, and nonresponsive when IRS failed to provide a response to the taxpayer when one should have been sent.

increase taxpayers' anxiety about the status of their requests. IRS needs to revise its procedures to require a response in these situations.

About 38 percent of the taxpayers in our sample could have called instead of written to IRS to resolve their issue, on the basis of IRS' criteria for handling telephone inquiries. IRS believes using the telephone would probably resolve matters faster for the taxpayers and at less cost to IRS. IRS needs to do a better job of letting taxpayers know when to telephone instead of write. A more difficult issue IRS needs to contend with, however, is the worsening accessibility of its telephone assistance over the last several years.

IRS' measure of the timeliness of its response focuses on providing an interim or a final response to taxpayers.² Because its measure does not focus solely on providing a final response to taxpayers, IRS underestimates the actual time it takes to resolve taxpayer matters. IRS' measure of timeliness also does not include the time that elapses after an IRS employee puts a letter or notice into the computer system until it is mailed (mail-out time), which can add 3 days to 3 weeks—depending on the form of IRS' response—to IRS' response time. By not measuring timeliness from the taxpayers' perspective, IRS managers may be less likely to emphasize improving things that matter to taxpayers.

We took a separate sample of 261 interim letters at the Atlanta and Cincinnati service centers to evaluate the clarity of these letters in relation to the taxpayers' inquiries. We found that about half of the letters in our sample were inappropriate and potentially confusing to taxpayers. We believe IRS should reassess the purposes for interim letters, develop clear instructions for the service centers, and review samples of interim letters to make sure that more appropriate letters result.

Much of the improvement in IRS' correspondence stems from its implementation of recommendations made by an internal Correspondence Task Force in August 1990, but some recommendations have yet to be implemented. For example, IRS' 63 district offices have not implemented the recommendations to the extent that the 11 service centers have.³ In addition, IRS still lacks an automated inventory tracking system and a

²IRS sends interim letters to taxpayers when the issue in question will not be resolved within 30 days. An interim letter is intended to acknowledge that IRS is working on a taxpayer's correspondence and will respond at a later date.

³There are 10 service centers and 1 compliance center. Throughout the report when we refer to the service centers, we are including the Austin, TX, compliance center that performs only those service activities related to compliance.

standardized letter writing system and has not done a planned survey of taxpayer satisfaction with IRS correspondence.

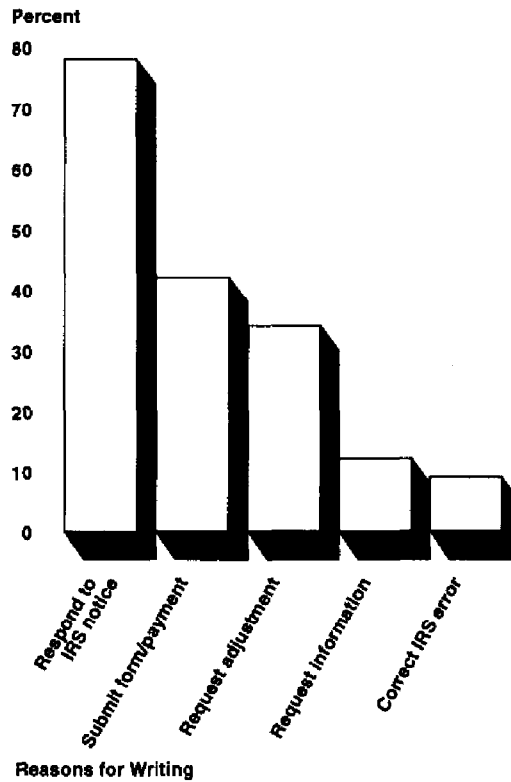
IRS is in the midst of creating customer service centers to handle future taxpayer contacts as it reorganizes to take advantage of technological improvements. These new centers are to bring together all of the activities that actually "serve" taxpayers in contrast with the existing centers that carry out many activities not related to service. Our report contains several recommendations to improve IRS contacts with taxpayers that we believe IRS should factor into its planning process for the new customer service centers.

Background

IRS defines taxpayer correspondence as all written communication from a taxpayer or taxpayer representative, excluding tax returns. Under this definition, IRS' 11 service centers—which according to IRS, respond to the bulk of taxpayer correspondence—received approximately 31 million pieces of correspondence during fiscal year 1992. IRS' 63 district offices do not routinely track the amount of correspondence they receive; however, 3 district offices reported that they received a total of about 13,000 pieces of taxpayer correspondence during a 1-month test in 1993.

Taxpayers write to IRS for a variety of reasons. For example, they write to respond to a notice or letter from IRS about a balance due, failure to file a tax return, or a potential discrepancy between income reported on a tax return and income reported by a third party. Taxpayers also contact IRS to ask about a refund or the status of their tax account or to request a penalty abatement or an installment agreement. Figure 1 shows the various reasons why taxpayers wrote to IRS during the period we did our case reviews.

Figure 1: Reasons Taxpayers Wrote to IRS



Note: Numbers add up to more than 100 percent because some taxpayers wrote in about more than one issue.

Source: GAO sample of 1,894 closed correspondence cases taken from 2 IRS service centers.

When IRS receives taxpayer correspondence, it is opened, stamped with a receipt date, and forwarded to the appropriate function for handling. Taxpayer correspondence that comes to a service center is handled by either the Returns Processing, Collection, or Examination functions. Tax examiners in these functions work the cases on a first-in, first-out basis. To work a case, tax examiners typically research a taxpayer's account, adjust the account if necessary, and prepare a response to the taxpayer. Service center quality assurance branch staff review samples of closed correspondence cases to ensure that IRS' responses are correct and that examiners followed prescribed procedures. IRS defines a correct response as an accurate and professional communication, which on the basis of the

information provided, resolves the taxpayer's issues, requests additional information from the taxpayer when appropriate, or notifies the taxpayer that additional information was requested from outside IRS.

We, IRS' Internal Audit, and others have reported numerous problems with IRS' handling of taxpayer correspondence. In our 1988 report,⁴ we said that 48 percent of IRS responses from one branch at three service centers were incorrect, incomplete, unresponsive, or unclear. This type of correspondence is frustrating and confusing to taxpayers and hinders their ability to comply with the tax laws.

To address these concerns, an IRS Correspondence Task Force made 24 recommendations in August 1990 to improve the quality and timeliness of IRS correspondence. The recommendations covered all IRS functions that handle taxpayer correspondence and included the following major actions: (1) developing a common definition for taxpayer correspondence, (2) establishing timeliness and quality guidelines for responding to taxpayer correspondence, (3) installing a letter writing system and an inventory tracking system, (4) adopting a quality measurement system, and (5) developing management information reports.

IRS began implementing the recommendations in January 1991 and reported that service centers had completed key components of the recommendations by October 1991. In June 1993, a task force subgroup reported that service centers had implemented most of the recommendations. Another task force subgroup assessed the applicability of the recommendations to district offices and made a series of related recommendations that IRS plans to begin implementing in its district offices during fiscal year 1994.

Objectives, Scope, and Methodology

Our objectives were to (1) assess IRS' success at implementing changes aimed at improving its correspondence and (2) determine what, if any, changes would be appropriate to further improve correspondence quality and timeliness.

To address our objectives, we took the following steps:

- We reviewed all of the 1,894 closed IRS correspondence cases from the Cincinnati and Atlanta Service Centers that had been reviewed by IRS'

⁴Tax Administration: IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence (GAO/GGD-88-101, July 13, 1988).

quality review branches during the month of December 1992. These cases are representative of the correspondence workload at the two centers during December 1992 but are not projectable to other time periods or to other centers. These cases included correspondence handled by service center activities in the Collection, Examination, and Returns Processing functions. We focused on correspondence received by service centers because IRS believes they handle most of the correspondence IRS receives from taxpayers. We focused on these two centers in particular because we had staff available at those locations.

- We validated our case assessments by comparing our scoring with the scoring of IRS' quality reviewers on the same cases. Of our 1,894 sample cases, we categorized 15 percent (275) as problem cases, and IRS categorized 19 percent (364) as problem cases. There were also differences in the scoring of particular cases. For example, IRS' quality reviewers categorized 60 percent (166 of 275) of our problem cases as problem cases. They also classified another 198 of our 1,894 cases as having problems that we did not. Appendix I discusses the reasons for the scoring differences.
- We obtained and analyzed fiscal year 1992 computer records of IRS correspondence quality reviews from all 11 IRS service centers.
- We reviewed IRS management reports on the timeliness and accuracy of correspondence.
- We reviewed a random sample of 261 interim letters from the Atlanta and Cincinnati Service Centers. We reviewed a sample of 183 interim letters sent from the Atlanta Service Center to follow up on our April 27, 1993, letter⁵ to the Subcommittee, which discussed issues relating to the clarity of 78 interim letters sent from the Cincinnati Service Center.
- We interviewed IRS officials responsible for overseeing the implementation of the Correspondence Task Force recommendations and assessed IRS' implementation of those recommendations.
- We reviewed IRS' progress in developing the Automated Inventory Control System (AICS)—a project intended to automate the tracking and control of taxpayer correspondence in IRS' service centers. AICS is part of IRS' \$23 billion Tax Systems Modernization program.

We did our work from June 1992 to August 1993 at IRS' National Office, Central and Southeast Regional Offices, the Cincinnati and Atlanta District Offices, and the Cincinnati, Atlanta, Fresno, CA, and Ogden, UT, Service Centers. Our work was done in accordance with generally accepted government auditing standards.

⁵IRS Correspondence (GAO/GGD-93-38R, Apr. 27, 1993).

IRS provided written comments on a draft of this report. These comments are summarized and evaluated on pages 23 and 24. A copy of the comments appears in appendix II.

IRS Reports Progress in Improving Correspondence

In July 1988,⁶ we reported that 48 percent of a sample of correspondence cases taken from three service centers between May 4 and July 31, 1987, had problems involving incorrect adjustments to taxpayer accounts, unresponsive letters, unclear or incomplete letters, and/or incomplete IRS actions. We identified various factors that contributed to the correspondence problems at the three centers. For example, a cumbersome computerized system contributed to inappropriate responses. Tax examiners prepared responses by selecting from a large catalog of required and optional paragraphs, but the system did not allow the examiners to see the completed letter on the screen. We also said that IRS' quality assurance reports understated correspondence error rates because the error rates reported to management were combined with those from other activities that had lower error rates. The combination of correspondence errors with errors in other activities masked correspondence problems; thus, management did not see the urgency to take corrective action.

Among other things, we recommended that IRS (1) report correspondence error rates separately; (2) build letter review features into a letter writing system, which was under development at the time of our review; and (3) determine whether other factors affecting tax examiner performance (qualifying requirements, performance standards, opportunities for advancement) needed to be revised.

In March 1991,⁷ we reported that IRS had made changes to its quality measurement program at the service centers to enable the quality reviewers to specifically assess the quality of correspondence being sent to taxpayers. At that time, IRS reported that its error rate had decreased from 38 percent in February 1989 to 14 percent in August 1990. In addition, we reported that IRS had implemented a new letter writing system to assist examiners as they composed and reviewed letters.

In January 1991, in an effort to continue improving its correspondence, IRS began nationwide implementation of the recommendations set forth by its

⁶GAO/GGD-88-101, July 13, 1988.

⁷Tax Administration: IRS Needs to Improve Certain Measures of Service Center Quality (GAO/GGD-91-66, Mar. 20, 1991).

1990 Correspondence Task Force. In June 1993, a task force subgroup reported the following accomplishments in implementing the recommendations at service centers:

- the development of a new correspondence policy statement and a broader definition of taxpayer correspondence;
- the development of a method to measure national volumes of incoming correspondence and a system to measure the timeliness and accuracy of outgoing correspondence;
- the expansion of the quality measurement system to cover all service center functions that correspond with taxpayers, giving IRS a consistent means of measuring timeliness and accuracy; and
- the adoption of national goals for accuracy and timeliness.⁸

As a result of these actions and others, IRS believes it has made significant progress in handling taxpayer correspondence. It reports, for example, that between October 1991 and March 1993, its accuracy rate improved from 87 percent to 90 percent and its ability to respond within 30 days improved from 70 percent to 85 percent.⁹

Correspondence Problems Still Exist

IRS has made substantial improvements since our 1988 report, but it still has difficulty handling and responding to taxpayer correspondence. On the basis of our analysis of correspondence cases from two service centers, we identified two areas of concern: (1) flawed responses to taxpayer correspondence and (2) taxpayer correspondence that reflected prior unresolved contacts with IRS about the same issue.

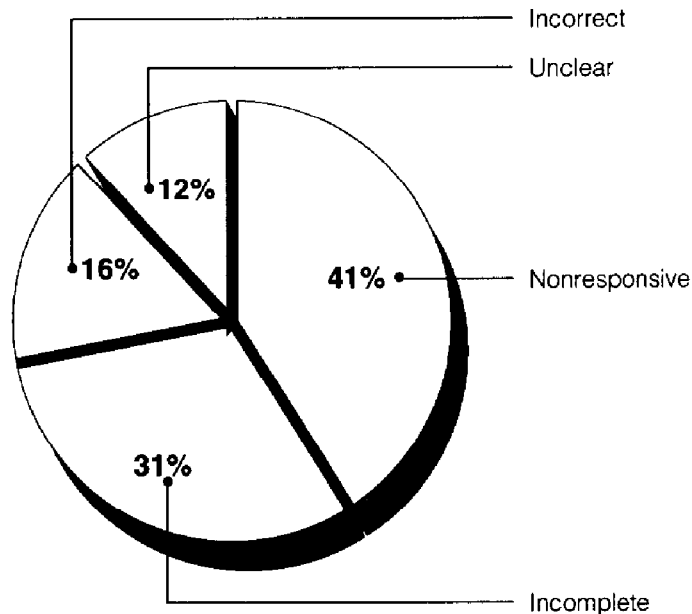
Some IRS Responses Were Flawed

Our analysis of 1,894 closed correspondence cases from the Atlanta and Cincinnati Service Centers showed that 15 percent, or 275 cases, were incorrect, unclear, incomplete, or nonresponsive. Figure 2 shows the distribution of the 275 problem cases among the 4 categories.

⁸IRS' goals during fiscal year 1992 were to send taxpayers an accurate response at least 85 percent of the time and to initiate a response within 30 calendar days from the IRS receipt date.

⁹Although the error rates cited in our 1988 report, our 1991 report, and IRS' most recent statistics show a general pattern of improvement, the rates are not directly comparable. Our 1988 sample examined correspondence from the adjustments/correspondence branch, whose function is to change, add, or correct information in taxpayer accounts, and to respond to account-related taxpayer correspondence. Our 1991 report cited IRS statistics from service center returns processing activities, which includes the adjustments/correspondence branch. Beginning in October 1991, IRS correspondence statistics included data from service center examination and collection activities as well as returns processing.

Figure 2: Flawed Correspondence



Source: GAO analysis of 275 correspondence cases sampled at 2 IRS Service Centers.

The following are four examples of correspondence cases for which we concluded that IRS responded to the taxpayer in an incorrect, unclear, incomplete, or nonresponsive manner. We present additional examples in appendix III.

Incorrect Correspondence

IRS sent a notice to a taxpayer asking for information to determine if the taxpayer was required to file a 1990 tax return. The taxpayer responded that he was waiting for the correct tax forms and would file his return in about a month. IRS then sent the taxpayer a letter saying that IRS had a previously filed return for the taxpayer, when in fact it did not. This error was caused by an IRS examiner using the wrong computer code to resolve the taxpayer's problem. As a result of this wrong code, IRS automatically mailed the taxpayer the letter incorrectly stating that IRS had received a return for the taxpayer.

Unclear Correspondence

A Spanish speaking taxpayer corresponded with IRS in Spanish using Spanish language forms from IRS. IRS appropriately sent the taxpayer an

interim response in Spanish explaining that more time was needed to address the taxpayer's questions. Unfortunately, when IRS completed its work, it responded in English. IRS officials speculated that the English response was sent because different IRS offices handled the interim and final responses and that the last office to respond made an error. We considered the English language response to be unclear to the taxpayer.

Incomplete Correspondence

A divorced taxpayer responded to an IRS notice of taxes due by requesting an installment agreement and asking IRS to abate penalties and interest. The taxpayer also asked how he could receive credit for child support payments without access to the ex-spouse's social security number. IRS responded to the taxpayer's request for an installment agreement, but counter to IRS procedures, the tax examiner failed to respond to the request for a penalty abatement and the question about child support credit. We believe the IRS response was incomplete and that IRS should have responded to the taxpayer's other concerns.

Nonresponsive Correspondence

In response to a notice sent by IRS to ask that a taxpayer file a return, the taxpayer's representative sent IRS a copy of the return showing that it had been filed in a timely manner. With the return, the representative asked IRS to acknowledge receipt of the return and provided IRS with a self-addressed envelope. Even though the representative requested acknowledgment and IRS procedures require a response in such instances, IRS did not acknowledge receipt of the return.

Some Taxpayers Contacted IRS Several Times on the Same Issue

Taxpayers may contact IRS again when they receive flawed correspondence. Taxpayers who must contact IRS several times to resolve a matter are likely to be more frustrated and require considerably longer than 30 days to get a matter resolved. IRS' costs also increase when it needs to respond more than once on the same matter. Further, repeat correspondence runs counter to IRS' One-Stop Service program's goal, which is for IRS to resolve an issue during the taxpayer's initial contact with IRS or as a result of that contact.

Repeat correspondence accounted for about 11 percent of the total taxpayer correspondence cases in our sample,¹⁰ and the repeat rate differed for different IRS activities. The two major service center branches that had the highest rates of repeat taxpayer correspondence were the Taxpayer Relations branch (a 27-percent repeat rate based on 23 of 85

¹⁰We called taxpayer correspondence repeat correspondence if taxpayers specifically mentioned a prior written contact in their letters.

cases) and the Adjustments/Correspondence branch (a 20-percent repeat rate based on 47 of 232 cases).¹¹

One example of repeat correspondence occurred after a father mailed in tax returns for his two daughters and sent one check to cover taxes due on both tax returns. IRS applied the entire check to one daughter's account, causing an overpayment and a refund check to be sent to that daughter, while the second daughter received a notice of payment due. The father contacted IRS by telephone and mail on several different occasions to get the problem resolved. During the course of these contacts, he mailed a check to IRS to pay the second daughter's taxes (including the interest billed in the balance due notice). IRS subsequently told the taxpayer to expect another refund. When the taxpayer wrote again to say he did not deserve or receive the refund, IRS sent the taxpayer a refund inquiry letter asking him to certify that no refund had been received. This matter was not resolved at the time we drew our sample, and we suspect the taxpayer will need to contact IRS again before the matter is resolved.

IRS began collecting information on repeat correspondence in January 1993. IRS officials told us they plan to use the information as an indication of the extent to which IRS is providing One-Stop Service.

Opportunities to Improve IRS' Responsiveness to Taxpayers

In our case reviews and discussions with IRS staff responsible for handling taxpayer correspondence, several opportunities to improve IRS' responsiveness to taxpayers surfaced. These opportunities include resolving more taxpayer issues by telephone, clarifying the situations that warrant an IRS response to taxpayer correspondence, making timeliness indicators more useful, and improving interim letters.

Taxpayers Could Have Called Rather Than Written IRS for Assistance

Taxpayers can call, write, or visit an IRS office to resolve tax matters. IRS officials want to increase telephone service as part of their plans to restructure IRS to take advantage of technological improvements. Although not all matters can be resolved over the telephone, IRS believes that it is usually to the taxpayer's and IRS' benefit to use the telephone when possible.

¹¹Taxpayer Relations handles taxpayer requests for such services as photocopying tax returns, tracing stolen or lost refund checks, and resolving inconsistencies between IRS and Social Security Administration records. As noted earlier, examiners in the Adjustments/Correspondence branch answer account-related tax questions received from taxpayers.

Our analysis of correspondence cases shows ample opportunity for greater use of telephones by taxpayers. On the basis of responsibilities given to IRS telephone assistors in the Internal Revenue Manual and our discussions with IRS taxpayer service officials, about 38 percent of the taxpayers in our sample could have gotten an answer or resolved a tax matter by calling one of IRS' toll-free telephone sites. For example, IRS sends a series of notices to taxpayers who did not file a tax return to ask why a return was not filed. Taxpayers can call a toll-free telephone site to explain their reasons for not filing, and according to IRS procedures, the taxpayer's explanation will be accepted without further documentation in about 90 percent of our sample cases of this type.

One reason taxpayers in our sample wrote to IRS instead of calling may relate to the wording on the IRS notices and letters to which taxpayers were responding. IRS correspondence generally includes a telephone number for taxpayers to call, but taxpayers are told that telephone assistors may not have all the information necessary to handle their cases. However, in many cases, the assistors do have the necessary information. We believe more taxpayers would call IRS if, instead of a generic statement about limited telephone assistance, IRS did more to encourage taxpayers to respond by telephone in those situations when a telephone response would likely suffice. It might, for example, include directions to call an IRS toll-free telephone site in letters, notices, and publications when taxpayers could reasonably expect to resolve a tax matter over the telephone.

Before IRS can increase its use of telephones, however, it needs to improve taxpayer accessibility to its telephone system. Over the last several years, we have reported on several occasions about the declining accessibility to IRS' toll-free telephone system. In April 1993, for example, we said that IRS answered about 24 percent of incoming taxpayer calls between February 1 and March 27, 1993.¹² Other callers received busy signals or hung up after being put on hold. IRS' 24 percent answer rate in February and March was down from 33 percent during the same period the prior year.

IRS is in the midst of rethinking how to best organize itself to take advantage of technological improvements. Part of its reorganization planning calls for creating customer service centers to handle future taxpayer contacts. IRS expects customer service centers to help it meet its One-Stop Service goals by providing a single point of contact for taxpayers who telephone or write to IRS for assistance. In an April 1993 report discussing this concept, an IRS study team recommended greater use of

¹²Tax Administration: IRS' Budget Request for Fiscal Year 1994, (GAO/T-GGD-93-23, Apr. 28, 1993).

telephones to answer taxpayers' inquiries and resolve their tax issues. IRS is still working on its plans for the customer service centers. In light of its current accessibility problems and the potential for increased telephone use, we believe IRS needs to consider the results of our report in the broader context of its plans for reorganizing to provide better customer service.

IRS Procedures Allow Taxpayer Requests to Go Unanswered

Some of the cases we classified as nonresponsive in our sample were not considered flawed by IRS quality reviewers. Most of these cases occurred in the collection area and included (1) taxpayers' requests for more time to file a return and (2) taxpayers' requests to change the terms of an installment agreement. In both situations, IRS typically granted the requests and made appropriate changes to taxpayers' accounts (e.g., postponed the mailing of future delinquency notices or restructured the installment agreement) but did not always inform the taxpayer about the change.

In one of our cases, a taxpayer responded to an IRS notice requesting a taxpayer's delinquent tax return by asking for more time to file. The taxpayer was a victim of Hurricane Andrew and said he expected to file his return within 30 days of moving into a rebuilt home. IRS annotated the taxpayer's account to prevent further notices from being mailed but did not respond to the taxpayer. IRS' reasoning is that the absence of future delinquency notices is a sufficient response in most situations, although tax examiners have the latitude to send a response if they believe one is appropriate. We concluded that IRS was nonresponsive because the taxpayer was not informed that additional time was granted.

In another case, IRS received a taxpayer's request to change an installment agreement payment date from the first of the month to the middle of the month. IRS granted the taxpayer's request and updated the taxpayer's account but did not inform the taxpayer of the change. According to service center officials, IRS procedures do not require a response in these situations because taxpayers receive notices when installment payments are due. This notification would inform the taxpayer about the change in the payment due date, according to the officials. We believe, however, that some taxpayers might still wonder whether their request had been approved, particularly if they had not received the notification letter before the time they normally made their installment payment.

IRS' collection procedures do not require a response in these situations. When we discussed several cases we had classified as nonresponsive with

managers in the Collection function at the two service centers, they agreed that the taxpayers might have expected a response in those particular situations. In fact, one manager told us that she had recommended that IRS' procedures be changed to spell out more clearly those situations when an IRS response was appropriate. IRS' National Office was considering her recommendation at the time of our review.

Making Timeliness Indicators More Useful

IRS' timeliness goal is to send an interim or final response to taxpayers within 30 days 65 percent of the time. In April 1993, IRS reported that it met its timeliness goal 85 percent of the time, exceeding the 65-percent criteria. However, these statistics may not paint a realistic picture of IRS' responsiveness for two reasons. First, IRS' goal does not focus on the timeliness of final responses, which is probably of more interest to a taxpayer than the receipt of a timely interim response. Second, IRS does not factor in the time it takes to print and mail a response when it calculates timeliness.

One of the recommendations of IRS' Correspondence Task Force was that IRS should have timeliness goals for sending (1) a final response by the 14th day, (2) a final response by the 30th day, and (3) a final and/or interim response by the 30th day. IRS chose to focus on the third goal, and its 85-percent timeliness performance for the first 7 months of fiscal year 1993 reflects that measure.

From a taxpayer's standpoint, we believe a more useful indicator of responsiveness would focus on the time it takes IRS to send out a final response. Although IRS does not set separate goals for final responses, it tracks that information for return processing activities. For these activities, during fiscal year 1993, IRS initiated a final response 34 percent of the time within 14 days and 55 percent of the time within 30 days. An IRS National Office official told us that IRS was in the process of developing more challenging timeliness goals for fiscal year 1994. We think those goals should include goals for final responses.

We also believe that a better indicator of responsiveness would focus on when IRS sends taxpayers a response, not when it initiates a response. IRS' current measure of timeliness reflects the time between when IRS receives a taxpayer's letter and when it initiates a response. The latter is the date a tax examiner puts a letter or notice into the computer system to be mailed out. IRS staff in the National Office and the Atlanta and Cincinnati Service Centers estimated that it would often take another 5 to 7 days before a

letter is mailed and another 1 to 3 weeks before a notice is mailed because of the time it takes IRS to process, print, and review the responses. We calculated that IRS' timeliness performance for final responses would have slipped from 69 percent to 60 percent had this additional time been factored into the correspondence cases processed by IRS during fiscal year 1992.¹³

One of the recommendations of IRS' Correspondence Task Force was to review the time lapse between response initiation and the mailing date. In June 1993, a task force subgroup reported that most service centers had successfully reduced the mail-out time lapse from a range of 7 to 11 days to a range of 3 to 5 days for some types of letters. This improvement is a positive step, but we believe IRS' managers would be encouraged to seek further improvements if the timeliness measure included mail-out time.

Improving Interim Letters

About 1 million interim letters were sent to taxpayers in fiscal year 1992—the second most frequent type of letter sent out by the service centers. IRS is to send taxpayers interim letters when it is unable to resolve the taxpayer's issue or question within 30 days. According to IRS' National Office, the purpose of the interim letter is to inform a taxpayer that IRS has received the taxpayer's correspondence but has not completed work on the taxpayer's case. The letter is to contain enough information so that the taxpayer can understand why IRS needs more time to respond.

IRS' tax examiners and clerical staff use IRS' computerized letter writing system to prepare interim letters. The letter writing system contains about 350 standardized letters designed to respond to a variety of taxpayer situations. These letters provide standard language to fit the situation, but also allow for the examiner to insert optional paragraphs. Thus, if there is time, staff can tailor each letter to specific taxpayer situations by choosing from the standardized letters and adding optional paragraphs.

Inappropriate Interim Letters

We reported in our April 1993 letter to the Subcommittee,¹⁴ that in 35 of 78 interim letters sent from the Cincinnati Service Center, IRS did not respond appropriately to the taxpayer. By this, we meant that the IRS response was inconsistent in one way or another with the taxpayer's letter. For example, we found several instances where IRS began its response with wording such as "Thank you for your inquiry dated —," when taxpayers were responding to IRS' requests for forms or supporting documentation and had

¹³We assumed a 5-day delay for letters and a 1-week delay for notices.

¹⁴GAO/GGD-93-38R, Apr. 27, 1993.

made no inquiry at all. Another frequent occurrence was IRS' failure to acknowledge a taxpayer's payment even though IRS sent an interim letter and some sort of acknowledgment seemed called for.

Since our April 1993 letter, we found similar problems with interim letters IRS sent from the Atlanta Service Center. These problems, combined with our discussions with National Office staff, led us to believe that a similar situation exists IRS-wide. In table 1, we highlight the results of our reviews of interim letters from the Atlanta and Cincinnati Service Centers.

Table 1: Our Analysis of IRS Interim Letter Responses to Taxpayer Correspondence

Service Center	Number of appropriate IRS responses	Number of inappropriate IRS responses	Total number of IRS responses
Atlanta	79	104	183
Cincinnati	43	35	78
Total	122	139	261

Source: Interim letters mailed to individual taxpayers by the account adjustment and collection activities on April 6, 1993, (Cincinnati), and June 3 and 8, 1993 (Atlanta).

We found that some of IRS' interim letters responding to taxpayers' correspondence were inappropriate. In one example, a taxpayer received a notice from IRS requesting payment of \$524. In his letter to IRS, the taxpayer enclosed a check for \$524 and said that he had previously submitted a check for that amount, but explained that his first check had not cleared his bank. IRS responded with an interim letter that began, "Thank you for your inquiry," and did not acknowledge receipt of the taxpayer's payment. We believe IRS' response to this taxpayer was not appropriate but was potentially confusing because it suggested that an inquiry was made, when in fact the taxpayer was responding to an IRS request for payment. Further, even though IRS does not routinely acknowledge all payments, in this case because (1) the taxpayer requested acknowledgment and (2) IRS chose to respond, we believe the response should have addressed the taxpayer's request.

In another example, a taxpayer wrote to IRS inquiring if he could combine monthly payments for three tax periods into one. IRS responded with an interim letter that thanked the taxpayer for the information submitted. We believe this response to the taxpayer was potentially confusing because the taxpayer was not submitting information but was in fact making an inquiry about his existing payment plan.

Several factors seemed to contribute to the relatively large percentage of inappropriate interim letters we identified. First, although National Office officials told us that "mass mailings" of thousands of interim letters in a short period were not intended, service center officials said that the combination of IRS' timeliness goals and high-case inventories sometimes led to such mailings. In these instances, examiners may only quickly scan the taxpayers' letters or not read them at all. This may contribute to situations like those in the examples when use of words like "inquiry" and "information submitted" were inconsistent with the matters raised in the taxpayer's letter.

Second, interim letters may be confusing to taxpayers because service centers use generally worded letters in an effort to save time. IRS' National Office has given the service centers the local option of sending generic interims, and the choices for many such letters are readily available in the computerized letter writing system. The problem with the generally worded letters occurs when some of the letters use wording that is not generic enough, thus creating the possibility for confusion. To illustrate, if the purposes of an interim letter are limited to telling the taxpayer his/her (1) letter was received, (2) IRS is working on whatever issues the taxpayer's letter addressed, and (3) IRS will contact the taxpayer when it has completed work on the issues raised, a simple, very general letter would seem to be appropriate. Such a letter would avoid use of terms such as "inquiry" or "information provided" that may confuse the taxpayer more than they communicate.

Third, it is not clear how taxpayers' payments are to be handled in interim letters. IRS does not reply when a taxpayer sends a scheduled installment agreement payment or when a taxpayer responds to a balance due notice with a payment in full. IRS officials told us that, unless a taxpayer raises another matter in a letter submitting a payment, an IRS response in these situations (which would be only an acknowledgment of payment) would be costly and unnecessary because the taxpayer's canceled check serves as a receipt. We do not disagree with IRS' reasoning in such cases. However, we found numerous instances when a taxpayer sent a payment along with a letter (1) asking a question, (2) providing other information, or (3) specifically requesting acknowledgment of the payment. In these instances, even though IRS chose to send an interim response, it did not acknowledge the taxpayer's payment.

We believe that IRS needs to reassess what it wants to accomplish with interim letters and then provide clear guidelines to the service centers for achieving those purposes. Some of the issues that should be clarified are

- the circumstances in which mass mailings of interim letters are to be sent,
- the format the interim letter should take in such circumstances, and
- the circumstances in which taxpayers' payments should be acknowledged.

The guidelines should be consistent for all IRS functions that send interim letters.

IRS Does Not Do Quality Reviews of Interim Letters

Interim letters are not reviewed by IRS' quality assurance branch staff because copies of these letters are not printed and kept in taxpayers' correspondence case files. If interim letters were included in the quality review process, IRS might be better able to identify systemic problems associated with the letters and act to correct these problems.

IRS officials raised some concerns about the additional costs of including interim letters in their quality review process. These costs included the costs of printing interim letters and storing them in case files as well as the additional costs for the reviews. We appreciate IRS' cost concerns; however, the large percentage of inappropriate interim letters we identified seems to warrant some method of improving the quality of these letters.

One option open to IRS would be to periodically print and retain only a sample of interim letters for quality review, as we did for this study. Because IRS typically samples less than 1 percent of all outgoing service center correspondence for quality review purposes, IRS' costs should not be prohibitive under this option.

Implementing Remaining Task Force Recommendations

IRS' Correspondence Task Force made 24 recommendations to improve IRS' handling of taxpayer correspondence. Most of the recommendations had been implemented in the service centers as of June 1993; however, IRS had not implemented the recommendations in the district offices. IRS' National Office officials told us that district office implementation of the Task Force's recommendations had not occurred because the recommendations were oriented toward service centers. The officials also told us that they believed further study of district offices was needed before action could be taken. Thus, a district office subgroup was created in January 1991.

In August 1993, the subgroup issued a report that discussed results from a pilot test done at three district offices. The report contained 16 recommendations, many of which were similar to those contained in the Correspondence Task Force's August 1990 report. IRS planned to begin implementing the adopted recommendations at the district offices in fiscal year 1994.

IRS is also still working on implementing recommendations in both service centers and district offices that deal with

- (1) providing an updated automated letter writing system to all IRS operations that respond to taxpayer correspondence;
- (2) completing development of an automated reporting system for correspondence receipts, inventory, timeliness, and quality; and
- (3) surveying taxpayers' satisfaction with IRS responses to taxpayer correspondence.

We believe the yet-to-be implemented recommendations require IRS' continued attention.

Providing an Updated Letter Writing System

Following our 1988 report,¹⁵ IRS developed two new letter writing systems—the Professional Letter System and the Correspondex Expert System—to help tax examiners respond to taxpayer correspondence. To generate correspondence, service centers generally use one of these new systems or an older Correspondex system. The new systems were intended to replace the older Correspondex system that prevented employees from reviewing a finished letter and limited examiners from tailoring standardized letters to fit unique taxpayer situations. District offices do not generally use these letter writing systems. Instead, they rely on a variety of personal computer-based word processing systems or preprinted letters.

Each of the newer service center systems is an improvement over the old Correspondex system, but both have certain disadvantages. For example, the Professional Letter System is not linked (except at one service center) to IRS' accounts retrieval system, thus requiring time-consuming, separate checks and manual entry of the account information by tax examiners. IRS has not as yet expanded the linkage between the letter writing and accounts retrieval systems to other service centers because of funding

¹⁵GAO/GGD-88-101, July 13, 1988.

considerations. In addition, the Correspondex Expert System has software limitations that limit the system's capacity to store standardized letters and slow its response time in linking with the accounts retrieval system.

The shortcomings of both letter writing systems prompted IRS' Correspondence Task Force to recommend that an updated letter writing system be provided to all IRS operations that respond to taxpayer correspondence. IRS' plans as of May 1993 were to incorporate an updated letter writing system into an Integrated Case Processing system that is part of its overall plan to modernize its tax processing system. IRS expects that the Integrated Case Processing system will provide computer images of returns, remittances, and correspondence, along with on-line tax account information. IRS plans to implement the Integrated Case Processing system in 1996 or 1997.

Given IRS' lack of progress since we reported on this matter in 1988, we believe an improved letter writing system is overdue. At this time, however, we agree with IRS' plans to incorporate an improved letter writing system into its longer term modernization plans. In planning the new system, we believe that it is important for IRS to meet the requirements of the users of that new system. These requirements, as listed by the Correspondence Task Force and others, include giving users the capability to (1) review outgoing correspondence (letters and notices) before it is sent out; (2) store and retrieve prior correspondence from a taxpayer, particularly correspondence relating to a similar issue; (3) perform spell and grammar checks; (4) obtain prompts from the system on information to include in the letters and perform validity checks on that information; (5) tailor standardized letters to unique taxpayer situations; and (6) obtain access to relevant taxpayer account information.

Completing Development of an Automated Correspondence Reporting System

IRS' Correspondence Task Force also recommended that IRS develop a uniform correspondence reporting system that would track receipts, inventory, timeliness, and quality at all service centers. Initially, IRS planned to use an automated mail system at the Philadelphia Service Center. IRS later canceled its plans because of capacity and cost considerations. In lieu of an automated system, some service centers now use manual systems to track and report correspondence inventories.

IRS officials told us that eventually they hope to automate correspondence tracking with the Automated Inventory Control System (AICS)—a modernization project that is being tested at the Fresno Service Center. As envisioned by IRS, AICS will track and prioritize taxpayer correspondence,

associate correspondence received with any previous correspondence sent from a taxpayer, and identify all of the issues a taxpayer writes to IRS about. IRS officials believe that AICS will reduce misrouted mail within service centers and help tax examiners provide taxpayers with faster, more accurate, and more complete responses. Originally scheduled to be implemented throughout IRS in 1994, AICS has been delayed at least 2 more years pending further tests to determine whether the system can be justified from the standpoint of cost. IRS officials told us that ultimately AICS would be integrated into the same Integrated Case Processing system as the new letter writing system.

Although we believe IRS responses to taxpayer correspondence would be improved by a correspondence tracking system such as AICS, we did not examine AICS itself in enough detail to form an opinion about its relative costs and benefits. In February 1993 testimony,¹⁶ however, we cautioned IRS against prematurely installing systems such as AICS, particularly when they might be quickly outdated by other systems envisioned by IRS' Tax Systems Modernization program. Integrating AICS into the Integrated Case Processing system appears to address our concern.

Conducting a Customer Satisfaction Survey

Emphasis on the customer is a key element in providing a strong customer service program. The Vice President's September 1993 report on the National Performance Review cited the need for federal agencies to improve their service to the American people and mentioned IRS as a leader in seeking ways to improve service to taxpayers.¹⁷ IRS' Correspondence Task Force recommended surveying taxpayer satisfaction with IRS correspondence, which is consistent with that emphasis.

The purpose of the survey was to solicit input from taxpayers on the timeliness, quality, and courtesy of IRS' responses. IRS' plans called for a contractor to administer the survey to taxpayers who had written to IRS and received a response. Bid costs that were higher than expected and IRS' concerns about overburdening taxpayers who would need to fill out and return the surveys led IRS to postpone implementing this recommendation. IRS officials told us they now plan to incorporate a correspondence satisfaction survey into a broader survey of all IRS services. As of April 1994, IRS had not set a firm date for sending out the survey.

¹⁶Tax Systems Modernization: Comments on IRS' Portion of President's Request for Fiscal Year 1993 Supplemental Funds (GAO/T-IMTEC-93-1, Feb. 24, 1993).

¹⁷Creating a Government That Works Better and Costs Less: Report of the National Performance Review (Sept. 7, 1993).

Conclusions

IRS has taken a number of steps to improve the quality and timeliness of its responses to taxpayer correspondence since we reported on this area in 1988 and 1991. IRS' increased emphasis on its handling of taxpayer correspondence, the establishment of indicators and goals for measuring quality and timeliness, the expansion of correspondence quality reviews, and better letter writing capabilities all seem to have contributed to improvement.

Nevertheless, our review of 1,894 correspondence cases at 2 service centers indicated that further improvements are still needed. Many taxpayers write to IRS when they could call and get an answer over the telephone. To some extent, taxpayers write to IRS because it does not tell taxpayers when a telephone call would suffice. Also, some taxpayers who request a response from IRS may not receive one because IRS' procedures do not require one. Further, IRS' timeliness indicators tend to underestimate the actual time it takes to respond to taxpayer correspondence, and problems remain with the use of interim letters. Finally, several recommendations that were made by the Correspondence Task Force remain to be implemented.

IRS is currently in the midst of assessing its organizational structure. For example, it has announced plans to create customer service sites to handle future telephone and correspondence contacts with taxpayers. Part of these plans include creating an Integrated Case Processing system that will give IRS employees better information about taxpayer accounts and provide a basis for responding to taxpayer inquiries. Until these plans are laid out in greater detail, it is difficult to determine the best way for IRS to take advantage of the improvements discussed above. We think it is important that IRS incorporate the improvements we identified into its planning process.

Recommendations

We recommend that the Commissioner of Internal Revenue direct IRS' staff to take the following actions:

- Clarify the wording in IRS' notices, letters, and publications to better inform taxpayers of those situations that can be handled by a telephone call. Before implementing this recommendation, however, IRS first needs to ensure that its telephone system can meet the additional demand.
- Clarify IRS' existing procedures for responding to taxpayer requests to ensure that taxpayers' questions do not go unanswered.

- Use correspondence mail-out dates instead of the date a response was initiated as a timeliness indicator and adopt goals for providing taxpayers with final responses.
- Reassess the purposes of interim letters and then provide the service centers with clear guidelines for accomplishing those purposes.
- Review samples of interim letters to ensure that improvement in quality results from the revised guidelines.
- Implement Correspondence Task Force recommendations to (1) incorporate correspondence improvements at district offices, (2) meet user requirements for a letter writing system and an automated inventory control system, and (3) measure taxpayer satisfaction.

Agency Comments and Our Evaluation

In written comments on a draft of this report (see app. II), IRS agreed with five of our six recommendations. IRS offered an alternative solution to the remaining recommendation, which called for IRS to use correspondence mail-out dates as a timeliness indicator and adopt goals for providing taxpayers with final responses.

IRS agreed that its notices, letters, and publications should alert taxpayers to situations that can be resolved more promptly by telephoning rather than writing. It plans to use the results of a test underway at the Fresno Service Center to help plan future staffing and communication needs. IRS also expects to improve telephone customer service through new equipment and expanded service hours.

IRS agreed to take steps to ensure that all taxpayer inquiries are answered. For example, it is amending its procedures to ensure that taxpayer inquiries regarding installment agreement payments are promptly acknowledged. It also plans to review correspondence procedures to make sure they conform with Action 61 guidelines, IRS' program for implementing the Correspondence Task Force recommendations.

IRS believes that cost and time considerations make it impractical to measure the interval between the date a response is initiated and the actual mail-out date for each piece of correspondence. Instead, it proposes to spot check this interval, while continuing to use the response initiation date as the basis of its timeliness measure. We believe IRS' proposal to use spot checks is reasonable, given the large volume of correspondence. However, consistent with our view that timeliness should be measured from the taxpayers' perspective, we believe that IRS' measure of timeliness should include the results of those spot checks.

IRS provided updated information on its success at initiating final responses to taxpayers within 14 days and 30 days, respectively. We incorporated that information into our report. IRS said it will use this information as a baseline for measuring the fiscal year 1994 performance of its service center Returns Processing activities. This action is only partially responsive to our recommendation, because we believe similar performance measures need to be established for Collection and Examination activities—two other service center activities that regularly correspond with taxpayers.

IRS agreed that improvements are needed in interim letter guidelines and said that it planned to issue new guidelines by February 1994. The February target was not met, but IRS expected to issue the guidelines during May. It also planned to do quality reviews of interim letters, beginning some time in the first half of calendar year 1994.

IRS said it is working toward implementing the remaining recommendations of the Correspondence Task Force. For example, it said the district offices have adopted the recommendations pertaining to the definition of a timely, quality response and plan to present additional recommendations for approval during 1994. IRS also sent new letter writing equipment to nine service centers, pending further modernization of its letter writing system in 1996 or 1997.

We are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties.

Major contributors to this report are listed in appendix IV. Please contact me on (202) 512-5407 if you or your staff have any questions.

Sincerely yours,



Jennie S. Stathis
Director, Tax Policy and
Administration Issues

Contents

Letter		1
Appendix I Case Assessment Validation		28
Appendix II Comments From the Internal Revenue Service		29
Appendix III Additional Examples of Flawed Correspondence	Examples of Incomplete Correspondence Examples of Incorrect Correspondence Examples of Unclear Correspondence Examples of Nonresponsive Correspondence	34 34 34 35
Appendix IV Major Contributors to This Report		36
Table	Table 1: Our Analysis of IRS Interim Letter Responses to Taxpayer Correspondence	16
Figures	Figure 1: Reasons Taxpayers Wrote to IRS Figure 2: Flawed Correspondence	4 9

Abbreviations

IRS	Internal Revenue Service
AICS	Automated Inventory Control System

Case Assessment Validation

To validate our case assessments, we compared our case review results with the results of IRS' quality reviewers on the same cases. Of our 1,894 sample cases, we categorized 15 percent (275) as problem cases, and IRS categorized 19 percent (364) as problem cases. The differences occurred primarily because we and IRS used different criteria in reviewing the cases.

For example, IRS' quality reviewers categorized approximately 40 percent (109 of 275) of our problem cases as nonproblem cases. The main areas of difference lay in cases that IRS categorized as correct which we categorized as having problems because we believed IRS' letter to the taxpayer was unclear or nonresponsive. The fact that IRS' reviewers did not assess clarity explains the differences in that area. As to responsiveness, IRS reviewers looked for conformity with IRS' procedures, while we assessed responsiveness on the basis of IRS' response to the content of the taxpayer's letter, without limiting our assessment to conformity with IRS' procedures.

Similar reasons accounted for differences in cases that we considered correct, although IRS' reviewers categorized them as having problems. IRS reviewers classified 198 of the 1,894 cases as having errors that we did not classify as problem cases. One reason for these differences was that we assessed only IRS' outgoing correspondence, not other elements of how the case was handled. We did not consider a response erroneous, but IRS' quality reviewers did, for example, if a tax examiner neglected to update the taxpayer's case on the computer or made a wrong computer adjustment, even though the taxpayer was sent correct information. Another reason for these differences was the timing of our review. The IRS quality reviewers may have identified problems we did not because they reviewed the cases earlier than we did and had access to more information.

Comments From the Internal Revenue Service



COMMISSIONER

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

January 3, 1993

Ms. Jennie S. Stathis
Director, Tax Policy and Administration Issues
General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Jennie:

Thank you for the opportunity to review your recent draft report entitled, "Tax Administration: IRS Correspondence Needs to Continue Improving."

We agree with five of the six recommendations in the report and have an alternative solution to the other recommendation that will provide meaningful improvements in our correspondence. Our detailed comments on the recommendations are enclosed.

Sincerely,

A handwritten signature in cursive script that reads "Margaret Milner Richardson".

Margaret Milner Richardson

Enclosure

IRS COMMENTS ON GAO DRAFT REPORT ENTITLED
"TAX ADMINISTRATION: IRS CORRESPONDENCE NEEDS TO
CONTINUE IMPROVING"

Recommendation:

Clarify the wording in its notices, letters, and publications to better inform taxpayers of those situations that can be handled by a telephone call. Before implementing this recommendation, however, IRS first needs to ensure that taxpayer access to telephone service can meet the additional needs.

Comment:

We agree that our notices, letters, and publications should alert taxpayers to situations that can be resolved more promptly by phoning, rather than writing, the IRS. As noted by GAO, a prerequisite to adopting this policy would be having a telephone system capable of processing the increased traffic. A test currently underway at the Fresno Service Center is designed to advise and encourage taxpayers (via our return delinquency and balance due notices) of the advantages of telephonic contact. The test was initiated October 1, 1993, and will conclude September 30, 1994. The information and experience gained from this test should prove very worthwhile in helping us plan for our future staffing and communication needs as we move forward in realizing our goals of reducing taxpayer burden and improving customer service.

Over the next several years, we expect our Customer Service Sites will substantially increase telephone usage as taxpayers will be encouraged to telephone rather than write IRS to resolve Collection problems. We also plan to utilize automatic call distributors and voice response units to improve customer service. To meet increased telephone demands, we will expand the hours (including weekends) in which our personnel can be reached to resolve taxpayer questions and concerns.

Recommendation:

Clarify existing procedures for responding to taxpayer requests to ensure that taxpayer's questions do not go unanswered.

Comment:

We agree with GAO's recommendation to improve the quality of correspondence we send to taxpayers so that all their inquiries are answered. A key GAO concern has been IRS' failure to always promptly acknowledge taxpayer questions regarding installment agreement payments. To address this specific concern, we are amending appropriate Correspondence Letters and notices to include

Appendix II
Comments From the Internal Revenue
Service

-2-

acknowledgment of taxpayer payments. We will review correspondence procedures regarding taxpayer inquiries and make sure they are in conformance with Action 61 guidelines. The draft Internal Revenue Manual (IRM) procedures incorporating the new procedures will be completed by Central Region no later than January 1, 1994.

A standard part of our Quality Assurance Staff's review includes checking to ensure that each taxpayer question is addressed. If not, the error is noted and the case returned to the tax examiner for correction. Our staffing does not permit a 100 percent quality review of all outgoing correspondence, so some errors will continue to occur. However, we will make every reasonable effort to ensure every taxpayer inquiry is answered.

Recommendation:

Use correspondence mail out dates instead of the date a response was initiated as a timeliness indicator and adopt goals for providing taxpayers with final responses.

Comment:

We have spent considerable time researching and discussing the feasibility of this recommendation and have determined that it is not the best alternative. Using mail out dates as a timeliness indicator is not logistically feasible in service centers, however, this procedure was recommended in the District Office Study. Our various types of correspondence, e.g., letters, notices, and refunds, require different workflow procedures between initiation and mailout. It would be neither cost nor time effective to measure each case. Instead, we prefer to continue to monitor (via spot checks) the interval between the date we request initiation of our correspondence and the mailout date.

To expand on information contained in the GAO report (on page 19), one of our Correspondence Task Force (Action 61) recommendations was to have service centers review the time lapse between letter initiation and mailout date. Actions taken subsequent to the recommendations included eliminating the quality review systemic hold on interim letters, improving the process of associating attachments to the letters, and consolidating mail out operations. These actions helped reduce the interval (as noted in the GAO report) from 7-11 days to 3-5 days in most service centers. We will continue to monitor the interval between correspondence initiation and mail out and, whenever feasible, act to reduce the interval.

See p. 23.

-3-

The GAO report contains information (page 18) which is based on the first 7 months of fiscal year 1993 regarding the time it takes us to send out final responses. The report notes that, at the time of their review, we were in the process of developing more challenging timeliness goals for fiscal year 1994. We would like to clarify and expand this reference. The "timeliness goals" being developed involve return processing activities. Beginning in October 1993, our Correspondence Review Program for returns processing activities began tracking how often we initiate a final response to the taxpayer within a 14 day time frame and within a 30 day time frame. Using FY93 data, we have established the following returns processing baselines: final responses to taxpayers were initiated within 14 days 34% of the time; responses to taxpayers were initiated within 30 days 55% of the time. The weight values for these new measures in our returns processing Quality Index are substantially higher than the weight value given to our measurement for Final/Interim responses initiated by 30 days. These new Quality Index weights will allow us to more accurately monitor the effectiveness of our service center correspondence.

Recommendation:

Reassess the purpose of interim letters and then provide the service centers clear guidelines for accomplishing those purposes.

Comment:

We agree that improvements are needed in our Interim Letter guidelines. To address this, we plan to issue comprehensive guidelines by February 1, 1994. The guidelines will include a training package and together they will address the preparation of interim letters, mass interim letters, and telephonic interims.

Recommendation:

Review samples of interim letters to ensure that improvement in quality results from the revised guidelines.

Comment:

We agree that quality reviews of all types of interim letters are highly desirable and plans are underway to mandate formal reviews in all service center functional areas beginning the first half of calendar year 1994. These ongoing reviews will focus on the accuracy and appropriateness of the interim letters, identify problem areas for improvement, and the means necessary to quickly address and correct deficiencies.

Appendix II
Comments From the Internal Revenue
Service

-4-

Recommendation:

Implement Correspondence Task Force recommendations to (1) incorporate correspondence improvements at district offices, (2) meet user requirements for a letter writing system and an automated inventory control system, and (3) measure taxpayer satisfaction.

Comment:

We have implemented some of the Action 61 guidelines in our district offices, for instance, the definition of a timely, quality response was adopted. The remaining District Office Study recommendations will be presented for approval early in calendar year 1994.

We concur with the need for improving our letter writing system and just completed sending 54 Dell computers to nine of our service centers for the express purpose of expanding the utilization of our Professional Letter System. Our District Office Study revealed that most districts had word processing systems with professional letter writing capabilities. In addition, we are completing the standardization and updating of our letter correspondence and are eliminating unnecessary letters from our Correspondex File. These initiatives should improve our outgoing taxpayer correspondence pending modernization of our letter writing system in 1996 or 1997. As noted in the draft GAO report, IRS' efforts to implement an automated inventory control system have been delayed for a least 2 more years pending further tests to determine whether the system is cost effective.

A primary focus of the Customer Service Sites is to meet customer needs. We plan to use internal measurement systems and direct customer feedback to gauge our performance in meeting our objective of providing first rate customer service. We will employ a variety of methods to obtain the information such as post-paid survey card stuffers and follow-up letters; and a sampling of customers will be asked quality related questions during their telephone contacts. The data gleaned from these surveys will be combined into a Customer Database and used by the Customer Service Sites and National Office as a basis for improving and assessing service.

Additional Examples of Flawed Correspondence

The following sections contain examples of correspondence for which we found IRS to have responded in an incomplete, incorrect, unclear, or nonresponsive manner.

Examples of Incomplete Correspondence

In one example, a taxpayer asked IRS to abate interest and penalty assessments. IRS sent the taxpayer a notice stating the penalty was abated but did not address the request to abate interest. IRS does not typically abate interest unless the interest assessment resulted from an IRS error. However, we believe the tax examiner should have sent the taxpayer a letter in this situation that explained why interest was not abated.

In another example, a taxpayer responded to an IRS balance due notice stemming from an alleged unpaid federal tax deposit. The taxpayer explained that the deposit had been made but that IRS had posted the payment to the wrong tax account. Because the taxpayer believed IRS had erred, the taxpayer asked IRS to abate penalty and interest assessments. IRS responded by informing the taxpayer that the penalty would be abated but that the taxpayer was still responsible for the interest. In our opinion, IRS should have explained why it did not abate the interest, since the taxpayer believed the posting error was IRS' fault and since the taxpayer had written IRS before about the same matter.

Examples of Incorrect Correspondence

In one example, a business taxpayer asked IRS to apply a tax overpayment for the third quarter of 1992 to taxes due for the fourth quarter of 1992. Instead, IRS sent the taxpayer a refund because the tax examiner input the wrong computer code. The tax examiner should have adjusted the taxpayer's account to show a credit transfer as the taxpayer requested.

In another example, a divorced taxpayer asked for copies of joint returns filed while she was still married. Instead of sending the returns to the taxpayer making the request, IRS sent copies of the return to the divorced spouse. IRS did so because the ex-spouse had the primary social security number on the account and because IRS sent the returns to the address of record.

Examples of Unclear Correspondence

In one example, a taxpayer responded to an IRS balance due notice by asking IRS to set up an installment agreement. In its response, IRS told the taxpayer to fill out the enclosed forms and have them ready when an IRS employee called. However, the forms were not enclosed because the tax

examiner did not follow procedures and code the response, which would have informed another IRS employee to include the forms with the letter.

In another example, a business taxpayer responded to a balance due notice by stating that the business was no longer in operation and that the taxpayer had no money to pay the taxes. IRS responded by accepting the taxpayer's request to pay later, although the taxpayer had made no such request.

Examples of Nonresponsive Correspondence

In one example, a taxpayer filled out a form sent by IRS to determine if the taxpayer was required to file a tax return for a particular year. The taxpayer explained that he was not required to file a tax return because he was not employed and did not have any income for the tax year in question. IRS procedures require an IRS response acknowledging that a return is not required in these situations. However, IRS did not respond to the taxpayer because the tax examiner failed to input a computer code that would have generated an appropriate response.

In another example, a taxpayer wrote to IRS asking if he could skip an installment payment. IRS computers are programmed to allow one skipped payment, so the taxpayer did not require IRS' permission to skip a payment in this situation. However, under IRS procedures, the tax examiner was still required to inform the taxpayer that a skipped payment was allowable. The tax examiner failed to do so.

Major Contributors to This Report

General Government Division, Washington, D.C.

John M. Lovelady, Assistant Director, Tax Policy and
Administration Issues
Nancy M. Peters, Assignment Manager
Judith A. Lanham, Secretary

Cincinnati Regional Office

Michael J. Enriquez, Evaluator-in-Charge
Cheryl K. Andrew, Evaluator
Jennifer C. Jones, Evaluator
Mary Jo Lewnard, Technical Advisor
Robert I. Lidman, Issue Area Manager

Atlanta Regional Office

Lorelei H. Hill, Site Senior
Elizabeth M. Mixon, Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

