

GAO

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

December 2002

IRS's 2002 TAX FILING SEASON

Returns and Refunds Processed Smoothly; Quality of Assistance Improved



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Highlights

Highlights of GAO-03-314, a report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The tax filing season is when millions of taxpayers file their returns and seek assistance by calling or visiting IRS's offices or Web site. Because of the large number of returns and critical nature of IRS's filing season activities, GAO was asked to assess IRS's 2002 filing season performance in processing tax returns and refunds and providing timely and accurate assistance to taxpayers.

What GAO Recommends

GAO recommends that IRS (1) reinstate a telephone assistance caller wait-time measure, (2) revise its bi-weekly wait-time reports for walk-in sites, (3) explore the feasibility of revising its sampling plan for assessing the accuracy of walk-in account assistance, and (4) comprehensively evaluate walk-in site resource requirements after clarifying the extent and timing of workload and other changes at the sites.

In commenting on a draft of this report, IRS cited actions it has taken or plans to take that appear responsive to three of GAO's four recommendations. IRS's comments did not specifically address the recommendation that bi-weekly wait-time reports be revised.

www.gao.gov/cgi-bin/getrpt?GAO-03-314.

To view the full report, including the scope and methodology, click on the link above. For more information, contact James R. White at 202-512-9110 or whitej@gao.gov.

IRS'S 2002 TAX FILING SEASON

Returns and Refunds Processed Smoothly; Quality of Assistance Improved

What GAO Found

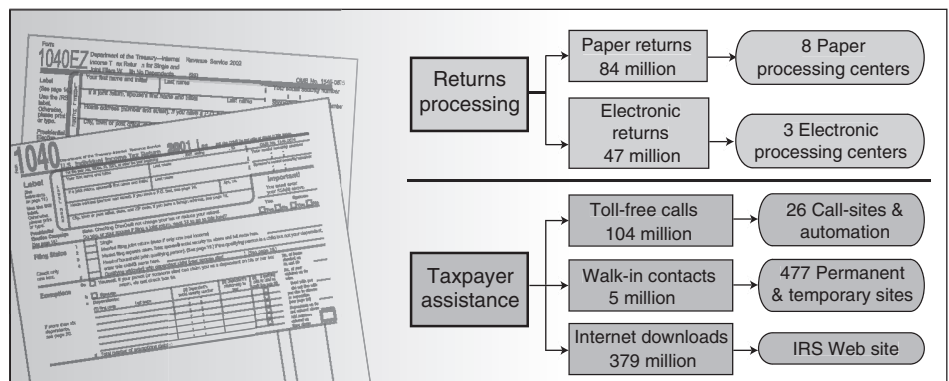
The Internal Revenue Service (IRS) processed returns and issued refunds smoothly and the quality of assistance provided to taxpayers improved in the 2002 filing season. In light of this, IRS should be commended for the various efforts it took to prepare for the 2002 filing season and improve performance. Still, opportunities exist for IRS to further improve aspects of its performance and some of its performance measures.

In 2002, IRS's performance included issuing almost all refunds on time, providing more accurate telephone service than in 2001, and meeting many of its 2002 performance goals in all areas. IRS also began measuring the accuracy of assistance at its walk-in sites to obtain better performance data. In addition, IRS's redesigned Web site was easier to access and more user friendly.

IRS's improved performance can be traced to its use of performance measures, which are part of its strategy to improve returns processing and taxpayer assistance as shown below. However, GAO identified opportunities for IRS to make further improvements. For example, IRS's suite of telephone measures lacks an indicator of how long callers wait to speak to an assistor—a key aspect of assistance that provides useful information for decision making by external stakeholders.

Although not a primary focus of this report, GAO also found that IRS lacked comprehensive plans related to the extent and timing of anticipated workload and staffing changes at its walk-in sites.

IRS's Primary Filing Season Activities Are Processing Returns and Assisting Taxpayers



Source: GAO's analysis of IRS's data.

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Abbreviations

CSR	customer service representative
ETAAC	Electronic Tax Administration Advisory Committee
IRS	Internal Revenue Service
NAP	National Account Profile
ODC	Oral Disclosure Consent
OTIA	Oral Tax Information Authorization
PIN	personal identification number
Q-Matic	Queuing Management System
SSN	Social Security number
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment Operating Division



United States General Accounting Office
Washington, DC 20548

December 20, 2002

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

Dear Mr. Houghton:

In response to your request, this report discusses various aspects of the Internal Revenue Service's (IRS) performance during the 2002 tax filing season.¹ It is during the filing season that most taxpayers have their only contacts with IRS, generally to either seek assistance or resolve problems, such as computational errors or missing Social Security numbers (SSN), on their returns. The normal challenges associated with any filing season were exacerbated in 2002 primarily by a new tax credit on the individual income tax forms and efforts IRS took in response to terrorist activities in 2001. Because of the large number of returns and the essential nature of IRS's filing season activities, IRS's filing season performance is important to taxpayers and the Congress.

This report discusses IRS's performance in five key filing season activities: (1) processing individual income tax returns, refunds, and remittances; (2) increasing the extent to which individual income tax returns are filed electronically; (3) assisting taxpayers over the telephone; (4) providing face-to-face assistance at its walk-in locations; and (5) providing services via its Web site on the Internet. For each of those five areas, we discuss (1) IRS's performance compared with its performance in 2001 and its performance goals for 2002, as well as any other evidence relating to IRS's performance and (2) any factors or initiatives that substantively enhanced or impeded IRS's performance and its ability to meet performance goals.

¹Most taxpayers file their returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers get extensions from IRS that allow them to delay filing until as late as October 15.

We testified before the Subcommittee on Oversight on the interim results of our assessment in April 2002.² Our assessment was based on analyses of IRS data and data obtained from sources outside IRS, interviews of IRS officials and persons in the private sector, and observations of IRS operations.

Results in Brief

Available data for each of the five filing season activities we reviewed indicated that IRS's performance in 2002 was generally better than or comparable to its performance in 2001 and that IRS met many of its 2002 performance goals. Overall, individual income tax returns and refunds were processed smoothly (i.e., without any significant disruption); the use of electronic filing continued to grow; and the quality of assistance provided over the telephone, at walk-in sites, and through the Web site improved.

Processing—Available evidence indicates that IRS was able to smoothly process about 131 million individual income tax returns and about 99 million refunds in 2002. This assessment is based on IRS's performance in 2002 compared with its performance in 2001 and its goals for 2002 as well as other evidence, such as testimony from the tax practitioner community. IRS's smooth processing was accomplished despite several challenges that were unique to the 2002 filing season, including a new rate reduction credit that led to a significant number of errors that IRS had to correct. IRS attributed its ability to successfully meet these challenges, in part, to extensive preparation in advance of the filing season.

Electronic Filing—The number of individual income tax returns filed electronically grew from about 40.2 million in 2001 to about 46.9 million in 2002, an increase of about 16.5 percent, and the percentage of individual tax returns filed electronically reached 35.9 percent. This 16.5-percent increase over the number of returns received electronically in 2001 was more than IRS's goal of 15 percent and continued the upward trend in the number of returns filed electronically since 1995. IRS took some positive steps, including an increased focus on taxpayers and tax practitioners who prepare returns on computer but file on paper, that helped it achieve that increase and that could lead to further increases in the future.

²U.S. General Accounting Office, *Internal Revenue Service: Assessment of Budget Request for Fiscal Year 2003 and Interim Results of 2002 Tax Filing Season*, [GAO-02-580T](#) (Washington, D.C.: Apr. 9, 2002).

Telephone Service—IRS’s performance measures showed that IRS provided more accessible and accurate telephone service in the 2002 filing season than in 2001 and met most of its telephone service performance goals. IRS achieved these results despite an increase in calls due to the rate reduction credit. Although it is difficult to determine specific cause/effect relationships, several initiatives that IRS implemented for the 2002 filing season, including the implementation of an accuracy improvement strategy and enhancements to the telephone call routing system, likely contributed to the improved service. IRS’s accessibility and accuracy measures reflect the experiences of those callers who attempted to reach an IRS assistor (30.4 million calls), but not the experiences of other callers who received automated service or either hung up or were disconnected without receiving service (73.7 million calls).

Walk-in Assistance—Despite data limitations, there was enough evidence to suggest that the accuracy of tax law assistance provided by IRS’s walk-in sites improved in 2002 compared with 2001, although the level of accuracy (about 50 percent) was still low. Some of that improvement might be attributed to better training of field assistance employees. Although field assistance has made and anticipates making more workload and staffing changes at its walk-in sites, it has no comprehensive plans for doing so. When we discussed this with field assistance officials, they told us that they put the changes on hold until they are able to do more comprehensive planning.

Internet Web Site—Our assessment and external assessments indicated that IRS’s redesigned Web site, which became operational in January 2002, was easier to access and more user friendly, although there are certain aspects of the site that need attention. For example, someone using the site’s search engine to find information on the earned income credit would receive a list of over 1,500 items and would have to scroll down several pages of items before finding reference to the primary publication on that credit. IRS is aware of this problem and is working to identify solutions. IRS data also indicated that the Web site was used more often in 2002, although IRS’s primary measure of usage—number of hits—overstates usage.

We are making recommendations to the Commissioner of Internal Revenue to improve certain performance measures and to ensure that changes to walk-in sites and staffing are thoroughly analyzed and planned. In commenting on a draft of this report (see app. VI), the Acting Commissioner of Internal Revenue cited actions that IRS has taken or plans to take that appear responsive to three of our four

recommendations. The Acting Commissioner's comments on our fourth recommendation did not speak to the specific issue addressed by the recommendation.

Scope and Methodology

To assess IRS's performance in the five key filing season activities covered by this report, we

- reviewed and analyzed IRS documents and data, including workload and performance data;
- interviewed IRS officials about current operations, performance relative to 2001 performance and 2002 goals, and significant factors and initiatives that affected performance;
- observed operations at three of the eight processing centers operated by IRS's Wage and Investment Operating Division (W&I) and four of IRS's approximately 470 walk-in locations;³
- observed a leadership conference and program review at one processing center;
- analyzed information posted to IRS's Web site, specifically assessing the ease of finding information on the site (i.e., navigation) and the accuracy and currency of data on the site (i.e., content);
- reviewed information from private firms that assessed various aspects of IRS's Web site;
- reviewed information from and interviewed representatives of various private organizations that prepare tax returns and participated in IRS and other conferences about their views on IRS's 2002 operations and performance; and
- reviewed related congressional testimony and work performed by the Treasury Inspector General for Tax Administration (TIGTA).

This report discusses measures that reflect the continuing interest of the Subcommittee—including the quality, accessibility, and timeliness of IRS's performance during the filing season. We did not independently verify the data reported by IRS or, in most cases, assess the methodologies used for computing performance measures or the appropriateness of IRS's goals.

³As part of a reorganization that took effect in October 2000, IRS established four operating divisions that serve specific groups of taxpayers. The four divisions are (1) W&I, (2) Small Business and Self-Employed, (3) Large and Mid-Size Businesses, and (4) Tax Exempt and Government Entities. Our review focused on W&I, which generally serves taxpayers whose income is from wages and investments and which, as part of that service, processes individual income tax returns and provides assistance to taxpayers who call on the telephone or walk into an IRS office.

However, we recently issued a report that discussed whether the performance measures that IRS and we use to assess various aspects of IRS's filing season performance had certain key desirable attributes, such as objectivity, reliability, and clarity.⁴ Although we reported that some measures had weaknesses in these and other areas and we made recommendations to address the weaknesses we identified, IRS and we still consider the measures useful in providing data to assess performance.

We did our work at IRS headquarters; W&I headquarters and Joint Operations Center in Atlanta;⁵ and W&I processing centers in Atlanta, Memphis, and Philadelphia and walk-in locations in Georgia. We selected these offices for a variety of reasons, including the proximity of our audit teams and the location of IRS managers. We performed our work from January through November 2002 in accordance with generally accepted government auditing standards.

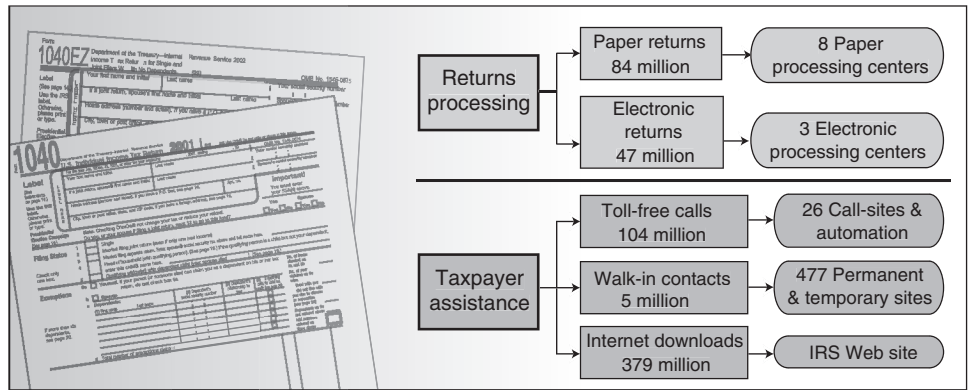
Background

IRS's filing season activities encompass two critical areas—returns processing and taxpayer assistance. Figure 1 provides information on the number of returns processed and the extent of assistance provided.

⁴U.S. General Accounting Office, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) (Washington, D.C.: Nov. 22, 2002).

⁵The Joint Operations Center is the organization responsible for managing IRS's telephone operations.

Figure 1: IRS's Primary Filing Season Activities Are Processing Returns and Assisting Taxpayers



Source: GAO's analysis of IRS's data.

Note: Workload data in this figure are for the following time periods: returns processing—1/1/02 to 10/25/02; toll-free telephone—1/1/02 to 7/13/02; walk-in—1/1/02 to 4/20/02; and Internet downloads—1/1/02 to 8/31/02.

The Economic Growth and Tax Relief Reconciliation Act of 2001⁶ directed the Secretary of the Treasury to issue advance tax refunds to eligible taxpayers. Accordingly, about 86 million taxpayers received checks of up to \$600 between July and December 2001. Taxpayers who did not receive an advance tax refund as part of that process or who received less than the maximum allowed by law may have been entitled to a rate reduction credit when filing their tax year 2001 returns in 2002.⁷ Accordingly, IRS added a line to the individual income tax forms for eligible taxpayers to enter a credit amount and provided a worksheet for taxpayers to use in determining if they were eligible.

In accordance with the IRS Restructuring and Reform Act of 1998⁸ and the Government Performance and Results Act,⁹ IRS established a balanced

⁶P.L. 107-16.

⁷The terms “advance tax refund” and “rate reduction credit” are not synonymous. Taxpayers who were eligible to receive an advance tax refund in 2001 but who did not receive a check may have been entitled to a rate reduction credit when filing their tax year 2001 returns. A rate reduction credit would reduce a taxpayer’s 2001 tax liability and could have resulted in a tax refund once the 2001 return was filed.

⁸P.L. 105-206.

performance measurement system to emphasize accountability for achieving specific results and to reflect its mission and its three strategic goals—top quality service to all taxpayers through fair and uniform application of the law, top quality service to each taxpayer in every interaction, and productivity through a quality work environment. IRS has defined three elements of a balanced performance measurement system—customer satisfaction, employee satisfaction, and business results (quality and quantity measures)—to ensure balance. IRS intends to use balanced measures to hold managers and frontline staff more accountable for improving filing season performance. Although IRS had measures of performance prior to its establishment of balanced measures beginning in fiscal year 2001, IRS managers have spent much effort revising measures since that time.

IRS Processed Individual Income Tax Returns and Refunds Smoothly in 2002 Despite Challenges

Qualitative and quantitative information indicates that IRS processed about 131 million individual income tax returns and about 99 million refunds smoothly (i.e., without any significant disruption, such as a computer breakdown that could cause major delays in issuing refunds).¹⁰ Part of that information resulted from our comparison of IRS's processing performance in 2002 with its performance in 2001 and its goals for 2002.

The smooth processing in 2002 was accomplished despite:

- the new rate reduction credit, which led to a significant number of errors by taxpayers and tax return practitioners;
- the terrorist attacks of September 11th, which led to IRS reissuing notices as part of its effort to provide relief to affected taxpayers, and the subsequent anthrax attacks perpetrated through the mail, which led to significant security enhancements; and
- IRS's reorganization, which caused IRS to shift computer files to match its new organizational units.

IRS attributed its success in meeting those challenges, in part, to extensive preparation in advance of the filing season. In addition, IRS continued initiatives begun last year to improve processing performance.

⁹The Government Performance and Results Act (P.L. 103-62) was enacted to hold federal agencies accountable for achieving program results. IRS's balanced measurement system is consistent with the intent of the act.

¹⁰Of the 131 million individual income tax returns, about 84 million were filed on paper and about 47 million were filed electronically. This section of the report focuses on IRS's processing of paper; electronic filing is discussed later.

IRS's Processing Went Smoothly

Regarding IRS's processing in 2002,

- IRS's performance in 2002 improved relative to 2001 for five measures (deposit error rate, deposit timeliness-paper, refund timeliness-individual (paper), refund error rate-individual (paper), and refund interest paid). As discussed later, we could not compare IRS's performance for three other measures (letter error rate, notice error rate, and productivity). Table 3 in appendix I describes these eight measures and shows the results IRS reported for each of the measures as of September 2002.
- IRS met its fiscal year 2002 performance goal for four measures (deposit timeliness-paper, refund timeliness-individual (paper), refund error rate-individual (paper) and refund interest paid) and missed its goals for two measures (deposit error rate and productivity). As discussed later, we could not compare IRS's performance against goals for the other two measures (letter error rate and notice error rate).
- Production data that IRS uses to monitor operations and identify and resolve issues that could disrupt operations showed IRS met processing deadlines and did not experience significant disruptions.
- In testimony given April 2002 before the Subcommittee, the Commissioner of Internal Revenue testified that, among other things, the filing season was smooth, with returns being processed on time.
- At that same hearing, (1) H&R Block, the largest tax return preparation firm, testified that the filing season had gone smoothly with some exceptions, such as the rate reduction credit, and commented on how well IRS and the tax preparation industry were working together and (2) a representative of the National Association of Enrolled Agents¹¹ characterized the filing season, on the whole, as smooth.
- Representatives of other tax return preparation firms told us that, from their perspective, processing went relatively smoothly.
- Directors, managers, and staff at processing centers we visited in Memphis, Atlanta, and Philadelphia voiced similarly positive views about the filing season and processing based, in part, on their monitoring of production and inventory levels and their ability to meet processing deadlines despite the additional error-correction workload resulting from the rate reduction credit.
- W&I's Director of Submission Processing characterized processing activities as smooth because of the lack of major disruptions and IRS's ability to handle the extensive error-correction workload and still meet

¹¹The National Association of Enrolled Agents is a national association of over 10,000 independent, licensed tax professionals called enrolled agents. Enrolled agents are licensed by the federal government and are authorized to appear in place of the taxpayer at IRS.

Revisions to Two Measures
Precluded a Complete
Quantitative Comparison

- projected production rates and processing timeframes. He and other IRS officials attributed IRS's success to several factors, including extensive planning and close monitoring of tax return receipts and inventory levels at the eight W&I processing centers through such means as weekly production meetings and a well-qualified workforce.
- According to TIGTA's report on the 2002 filing season, IRS had a successful filing season despite implementing numerous tax law changes related to the Economic Growth and Tax Relief Reconciliation Act of 2001, having to correct millions of errors related to the rate reduction credit, and experiencing problems with its error-correction system.¹² TIGTA reported that IRS was able to complete the additional workload without any material slowdowns in processing and issue refunds in a timely manner by working extra hours when necessary.¹³

Because IRS revised its letter error rate and notice error rate performance measures since last filing season, we could not compare its performance in 2002 with its performance in 2001 or against its goals for 2002.¹⁴ In computing these error rates, IRS eliminated certain errors, such as capitalization mistakes, that it referred to as "professionalism errors." As a result, IRS established new baselines for these two measures in 2002.¹⁵ According to IRS officials, the decision to eliminate professionalism errors in computing these measures was based on the fact that although those errors may make documents, such as letters and notices, less professional in appearance, they do not make the documents inaccurate.

According to IRS officials, changes to measures used to assess processing activities were necessary and not unexpected because the measures are relatively new and still under development and because 2002 processing goals were based on limited 2001 performance data. Furthermore,

¹²Although the 2002 Filing Season Was Completed Timely, Customer Service Can Be Improved During Error Processing, TIGTA, Reference No. 2002-40-200, Sept. 26, 2002.

¹³According to TIGTA, although employees worked overtime, the amount of overtime paid employees in the eight W&I processing centers in 2002 did not increase compared with the amount paid in 2001.

¹⁴We also could not compare IRS's performance in 2002 and 2001 relative to the productivity measure because IRS was revising its data for 2001 at the time we completed our audit work.

¹⁵Although this change also applied to the refund error rate-individual (paper) measure, a new baseline for refund error rate-individual (paper) was not warranted because, according to IRS officials and supporting data provided by IRS, the policy change did not affect this measure to the extent it affected the other two.

although comparisons cannot be made between 2001 and 2002, IRS officials believe that the measures provide important information to assess current year performance.

IRS Faced Several Challenges in Processing Returns in the 2002 Filing Season and Took Steps to Meet Those Challenges

IRS's ability to process returns and refunds in 2002 without any major disruptions was enhanced by extensive early preparation and coordination. That preparation and coordination helped IRS meet the following significant challenges that were unique to the 2002 filing season:

- Passage of the Economic Growth and Tax Relief Reconciliation Act of 2001, specifically the provisions relating to advance tax refunds and rate reduction credits.
- The September 11, 2001, attacks, which led to actions by IRS to provide tax relief to affected taxpayers, and the subsequent anthrax attacks perpetrated through the mail, which led to significant security enhancements.
- IRS's shifting of computer files in conjunction with its reorganization.

Details about these challenges can be found in appendix II.

Preparation and Coordination Helped IRS Meet Challenges

Preparation and coordination helped ensure smooth processing during the 2002 filing season. IRS begins extensive preparation well in advance of each filing season to help ensure smooth processing. Figure 2 reflects some of IRS's key activities and associated deadlines in preparation for each filing season. It also reflects the challenges that IRS faced in planning and delivering the 2002 filing season and IRS's responses to those challenges.

Figure 2: Highlights of IRS's Filing Season Preparations, Challenges, and Responses

2001											
January	February	March	April	May	June	July	August	September	October	November	December
Filing season annual tasks and deadlines:											
1/4 IRS is able to receive tax year 2000 individual income tax returns.	2/28 Deadline for accepting computer systems changes in response to legislative and other changes in preparation for the 2002 filing season.		4/16 Deadline for taxpayers to either file their individual income tax returns for tax year 2000 or get an extension. ^a	late-May Deadline for issuing refunds on timely filed returns without paying interest.				9/1 IRS begins testing initial changes to the computer systems for the 2002 filing season.	10/15 Final deadline for filing tax year 2000 individual income tax returns with extensions.	mid-Nov. IRS checks for operability of computer systems changes.	mid-Dec. IRS conducts final testing of the computer systems.
Filing season challenges and IRS's responses:											
					6/7 Enactment of tax relief legislation.	7/1 - 12/1 IRS issued advance tax refund checks to taxpayers. 7/30 IRS updated computer systems to address tax relief legislation.		9/11 Terrorists actions against the United States.	10/1 IRS held leadership conferences and established new office to coordinate filing season preparations and mitigate potential problems. 10/1 - 12/1 IRS updated computer systems to further address tax relief legislation and granted tax relief to taxpayers affected by 9/11 terrorist actions. mid-Oct. Anthrax attacks perpetrated through the mail.	mid-Nov. IRS established a committee to begin identifying security enhancements for handling mail.	12/1 Initial and final testing of the computer systems were run concurrently due to extensive changes from the tax relief legislation, tax relief to taxpayers affected by 9/11, and shifting computer files to match IRS's reorganization.

2002

January	February	March	April	May	June	July	August	September	October	November	December
Filing season annual tasks and deadlines:											
1/4 IRS begins receiving 2001 individual income tax returns.	2/28 Deadline for computer systems changes as a result of legislative and other changes in preparation for the 2003 filing season.		4/15 Deadline for taxpayers to file either their individual income tax returns for tax year 2001 or get an extension.	5/30 Deadline for issuing refunds on timely filed returns without paying interest.				9/1 IRS begins testing initial changes to the computer systems for the 2003 filing season.	10/15 Final deadline for filing the individual income tax return for year 2001 with extensions.	mid-Nov. IRS checks for the operability of computer systems changes.	mid-Dec. IRS conducts final testing of the computer systems.
Filing season challenges and IRS's responses:											
1/23 IRS began issuing a series of news releases informing the public about how to handle the rate reduction credit on their returns.	2/14 By this date, IRS received 31 million returns, of which more than 1 million had rate reduction credit errors. IRS corrected these errors.	3/15 By this date, IRS received 14 million additional returns, of which approximately 2 million had rate reduction credit errors. IRS corrected these errors.	4/19 By this date, IRS received 72 million additional returns, of which approximately 2 million had rate reduction credit errors. IRS corrected these errors.					7/12 By this date, IRS received 8 million additional returns, of which approximately 2 million had rate reduction credit errors. IRS corrected these errors.	9/9-11/30 IRS issued additional rate reduction credit checks to about 1.7 million taxpayers.		

Source: GAO's analysis of IRS's data.

^aThe deadline for filing tax year 2000 individual income tax returns was April 16, 2001, because April 15 was a Sunday.

IRS began preparing for the 2002 filing season by translating tax law requirements into computer system changes and testing those system changes in early 2001. As IRS continued preparing for the filing season, it had to make changes to the computer systems to accommodate the tax law changes related to the rate reduction credit and test those changes concurrently with regular testing and September 11 work. In March

2002, TIGTA concluded that IRS appropriately prepared for the effective processing of tax returns by modifying its computer systems, updating procedural and training manuals, and performing staffing analyses.¹⁶ In responding to that report, IRS officials indicated that preparatory efforts were successful and were instrumental in ensuring smooth processing.

IRS also established a new office—the Release and Filing Season Readiness Office—in October 2001 to support the coordination of computer system development, testing, and operation in the actual processing environment. Among other things, this office helped IRS respond to changing priorities and unanticipated challenges by monitoring the status of computer system changes, facilitating discussions between information technology and other processing units on how to mitigate problems, and helping support and coordinate testing and resources.

IRS Implemented or Expanded Initiatives to Improve Processing Performance

IRS implemented or expanded several initiatives to improve processing performance for both the 2002 and 2003 filing seasons. For example:

- IRS established site-level performance goals in 2002 to allow better, more individualized comparison of each processing center’s performance against its previous performance and toward corporate goals. According to IRS officials, these site-level comparisons should help identify best practices.
- In October 2001, IRS conducted a 2-day “leadership conference” at all eight W&I processing centers to communicate site goals and train managers and employees on the importance of performance measures and individual employees’ role in helping achieve goals. IRS officials credit the conferences, in part, with helping improve performance in 2002.
- Given the perceived success of last year’s leadership conferences, IRS conducted similar conferences in 2002. At the same time, IRS officials assessed whether the processing centers and employees were following procedures when sampling returns for review and reporting performance data for balanced measures. As a result, IRS identified issues that can be corrected by updating processing guidance, which will likely improve performance. In addition, IRS identified local procedures to help reduce the interest paid on refunds that officials said are being communicated to the other centers as a best practice.

¹⁶*The Internal Revenue Service Certifies Its Readiness to Process Individual Income Tax Returns in 2002*, TIGTA, Reference No. 2002-40-080, Mar. 29, 2002.

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- During the 2002 filing season, IRS expanded the third-party checkbox authorization, to allow taxpayers to designate friends, family members, or paid practitioners to help resolve problems IRS might encounter in processing their returns, such as a missing SSN, that could result in incorrectly computing a refund, for example. See appendix III for more information on the third-party checkbox authority.

IRS Exceeded Its 2002 Electronic Filing Performance Goal and Is Taking Action to Help Ensure Future Growth

IRS received about 47 million individual income tax returns electronically, or about 36 percent of all individual income tax returns filed, as of October 25, 2002. The growth rate in 2002 projected through 2007 would bring IRS very close to its long-term goal of 80 percent of all individual income tax returns filed electronically by 2007.¹⁷ However, the Electronic Tax Administration Advisory Committee (ETAAC)¹⁸ does not believe that the current growth rate can be sustained and, instead, expects the growth rate to decline. According to ETAAC, if IRS is to continue or increase its current growth rate, it needs to overcome various barriers to electronic filing. IRS took several steps that were aimed at overcoming existing barriers and that may have helped it exceed its electronic filing goal for 2002. Those steps could lead to more growth in the future. In addition, two initiatives planned for 2003 could further encourage many taxpayers and practitioners to convert from paper filing to electronic filing.

Electronic Filing Continued to Grow

As shown in table 1, the number of individual tax returns filed electronically grew from about 40.2 million in 2001 to about 46.9 million in 2002—an increase of about 16.5 percent—and the percentage of individual income tax returns filed electronically reached 35.9 percent. This 16.5-percent increase over the number of returns received electronically in

¹⁷This section discusses the measures that IRS uses to evaluate electronic filing performance compared to past performance, 2002 goals, and IRS's long-term goal for individual income tax returns. The report we issued on IRS's filing season performance measures ([GAO-03-143](#)) includes many performance measures related to electronic filing that are not discussed in this report because those measures relate to other returns, such as those from businesses.

¹⁸The IRS Restructuring and Reform Act of 1998 mandated that the Secretary of the Treasury convene an electronic commerce advisory group to ensure that the Secretary receives input from the private sector on IRS's plan to increase electronic filing. ETAAC was created in 1998 in response to that mandate and, among other things, is required to report to the Congress annually on IRS's progress towards meeting the electronic filing goals set in the act.

2001 was more than IRS's goal of 15 percent and continued the upward trend in the number of returns filed electronically since 1995.

Table 1: Number of Individual Income Tax Returns Received, by Filing Type

Number of returns in thousands					
Filing type	1/1/00 to 10/27/00	1/1/01 to 10/26/01	Percentage change 2000 to 2001	1/1/02 to 10/25/02	Percentage change 2001 to 2002
Paper	92,322	89,834	-2.69	83,816	-6.70
Electronic					
Traditional ^a	25,211	28,988	14.98	33,286	14.83
On-line ^b	5,022	6,838	36.16	9,428	37.88
TeleFile ^c	5,161	4,419	-14.38	4,176	-5.50
Subtotal	35,394	40,245	13.71	46,891	16.51
Total	127,716	130,079	1.85	130,708	0.48
Percentage filed electronically	27.7	30.9		35.9	

Source: IRS data.

Note: Totals may not add due to rounding.

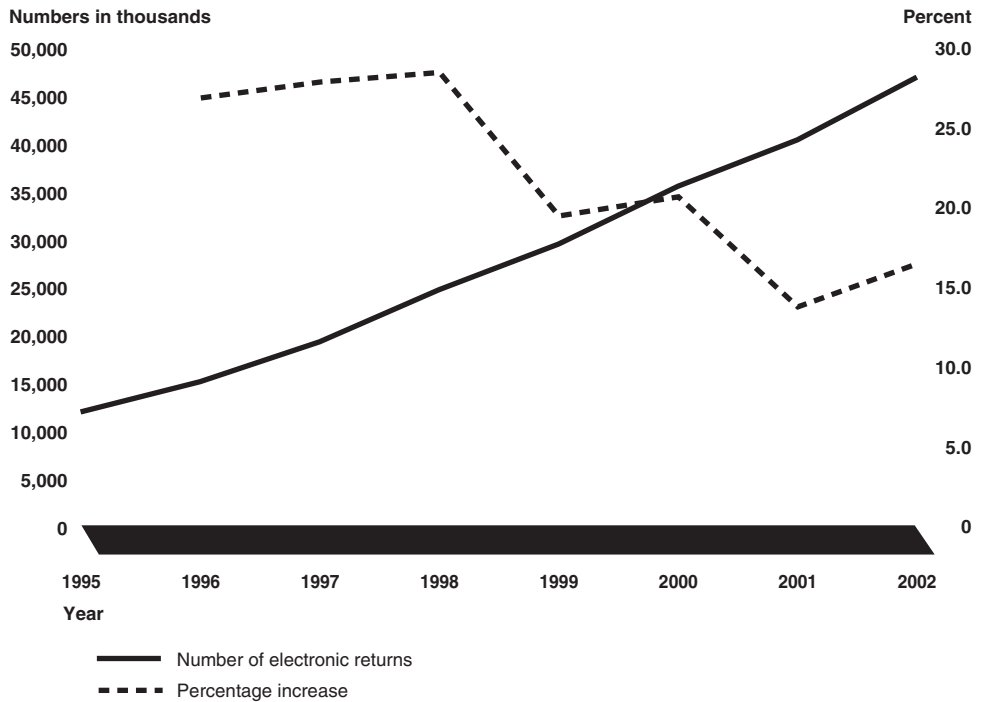
^aTraditional electronic filing involves the transmission of returns over communication lines through a third party, such as a tax return practitioner, to an IRS processing center.

^bOn-line returns are prepared and transmitted by taxpayers through on-line intermediaries using personal computers and commercial software.

^cUnder TeleFile, certain taxpayers who are eligible to file a Form 1040EZ are allowed to file using a toll-free number on touch-tone telephones.

Figure 3 shows that the growth in electronic filing in 2002 continued the upward trend started in 1995 and the rate of growth in 2002 was larger than the rate of growth in 2001.

Figure 3: Number of Individual Income Tax Returns Filed Since 1995



Source: IRS data.

Assuming continued annual growth rates of 16.51 percent for individual returns filed electronically and 0.48 percent for the total number of individual tax returns filed, about 75.2 percent of all tax returns will be filed electronically by 2007, slightly below the long-term goal of 80 percent. However, in its 2002 report to the Congress, ETAAC said that although the electronic filing goal for 2002 was exceeded, the trend of electronic filing is clearly towards lower annual growth rates, primarily for the following reasons:

- The taxpayers most easily attracted to electronic filing have already made the switch to electronic filing while the remaining taxpayers will be more difficult to convert.
- As the base of total filers and electronic filers grows, the number of new electronic filers needed to sustain the same growth rate increases.

Taxpayers and Tax Practitioners Report Being Satisfied with Electronic Filing

Each year, IRS surveys taxpayers and tax practitioners who electronically file to determine their satisfaction level with electronic filing. The survey for 2002 showed that about 98 percent of the responding taxpayers and 85 percent of the responding tax practitioners were either satisfied or very satisfied with electronic filing, which compares favorably with IRS's goal of 85 percent. Although the percentage of responding practitioners who expressed overall satisfaction was relatively high (85 percent), it was lower than in 2001 (90 percent), which, in turn, was lower than in 2000 (93 percent). It is not clear why the level of satisfaction among practitioners has been decreasing because the customer satisfaction survey does not probe for reasons behind a respondent's choices.

IRS Initiatives May Have Helped It Exceed Its 2002 Electronic Filing Performance Goal

Over the years, IRS has identified many impediments to electronic filing, including privacy and security concerns, cost, a lack of awareness of or interest in electronic filing, an inability to file all forms and schedules electronically, and a need to send certain paper documents to IRS even if the return was filed electronically. In 2002, IRS took numerous steps to alleviate these impediments and thus encourage more electronic filing that included the following:

- Increasing the electronic filing marketing budget from \$9 million in 2001 to about \$15 million in 2002 and focusing the marketing campaign on taxpayers and practitioners who filed computer-prepared returns on paper.
- Mailing a postcard to about 23 million taxpayers, including about 8 million taxpayers who had prepared their returns on a computer but filed on paper, informing them of the benefits of electronic filing and the self-select personal identification number (PIN) program. The postcard also informed them that a professional tax practitioner could be used to file their returns electronically and explained how the self-select PIN can be used to sign returns filed through a tax practitioner.
- Mailing two different letters to tax practitioners. The first letter was sent to practitioners who were already participating in the electronic filing program to thank them for participating and encourage them to continue to support the program. The second letter was sent to practitioners who were not participating in the electronic filing program and told them about the benefits of electronic filing, changes that had been made to the program, and pending changes. IRS enclosed a document with both letters that provided more information on the benefits of electronic filing and the self-select PIN program. In total, about 250,000 letters were sent to practitioners.
- Reinstating the practitioner PIN program. In 2001, practitioners informed IRS that they liked the practitioner PIN program, which IRS

had terminated in favor of the self-select PIN program, and would like to see it reinstated. As of October 25, 2002, 83.9 percent of the tax returns prepared by practitioners and signed by a PIN were signed through the practitioner PIN program. The other 16.1 percent were signed using a self-select PIN.

- Changing the self-select PIN program at the request of tax practitioners. In 2002, taxpayers entered only their adjusted gross income from the prior tax year to verify their identity. In 2001, taxpayers had to enter not only their adjusted gross income but also their total tax to verify their identity. Tax practitioners wanted the number of items used to verify identity—known as “shared secrets”—reduced from two to one, because errors related to shared secrets resulted in numerous electronic tax returns being rejected. Consistent with the reduction in the number of shared secrets from two to one, the number of reject conditions on electronic tax returns as a result of shared secrets went down from about 2.1 million in 2001 to about 1.3 million in 2002.
- Making 30 additional forms and schedules eligible to be filed electronically, thereby enabling, according to IRS, 99 percent of all individual forms and schedules to be filed electronically.

Although no information is available to confirm the extent to which these actions, either individually or collectively, contributed to the growth of electronic filing, it seems reasonable to assume that they had a positive effect since they address most of the identified impediments noted earlier.

IRS also took steps to obtain additional information on impediments to electronic filing. As in the past, for example, it held electronic filing forums and practitioner meetings and conducted attitudinal surveys and market research. One significant step was the surveying of taxpayers and tax practitioners who prepared returns on a computer but filed them on paper. We had recommended such surveys in our report on the 2001 filing season in response to the fact that about 40 million computer-prepared individual income tax returns were filed on paper in 2001.¹⁹

The surveys revealed that taxpayer and tax practitioner costs, security and technology concerns, and a perceived lack of interest were among the primary reasons why taxpayers and tax practitioners are not filing electronically. With respect to the perceived lack of interest, (1) 87 percent

¹⁹U.S. General Accounting Office, *Tax Administration: Assessment of IRS' 2001 Tax Filing Season*, [GAO-02-144](#) (Washington D.C.: Dec. 21, 2001).

of taxpayers who used paid practitioners indicated on the survey that their practitioner never discussed electronic filing with them and 4 percent said that their practitioner recommended against electronic filing and (2) 66 percent of tax practitioners said that they did not offer electronic filing because their clients did not ask for it. See appendix IV for more details on what survey respondents cited as factors that strongly influenced them not to file electronically and incentives that could encourage them to do so.

Planned Initiatives for 2003 Could Lead to More Electronic Filing

IRS has two initiatives planned for the 2003 filing season—making electronic filing free for millions of taxpayers and offering services to practitioners who file a certain number of returns electronically. IRS intends for these initiatives to address two major impediments—the cost to taxpayers and the lack of interest on the part of some practitioners.

In an attempt to remove cost as an impediment to electronic filing,²⁰ IRS entered into an agreement with a consortium of companies in the electronic tax preparation and filing industry that will offer free on-line tax filing services via IRS's Web site. IRS estimates that 78 million taxpayers will be eligible to file their tax returns for free through this consortium. However, in its 2002 report to the Congress, ETAAC stated that lack of access to a computer and/or the Internet may prevent many of the 78 million eligible taxpayers from taking advantage of the free-filing service.

To address the lack of interest on the part of some practitioners, IRS plans to offer electronic services (such as taxpayer identification number matching and account resolution) to tax practitioners who file a certain number of returns electronically. The aim of this initiative is to provide practitioners who file electronically with valuable tools to improve their service to their customers and reduce costs. In its 2002 report to the Congress, ETAAC stated that electronic services are likely to provide a major incentive for practitioners to file their clients' returns electronically.

²⁰To electronically file, taxpayers must generally either pay a tax practitioner to prepare and submit their tax return, pay a transmitter to transmit their tax return, or purchase a software package and file their tax return on-line through an on-line intermediary using a personal computer.

Telephone Service Improved Compared with Last Year

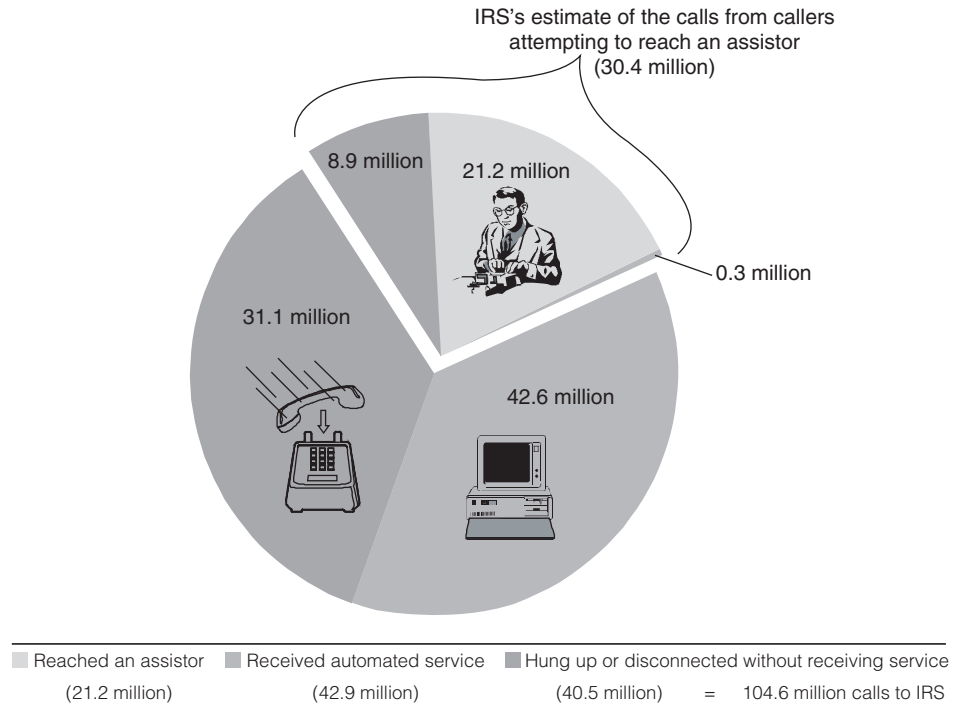
IRS's performance measures showed that (1) telephone service was more accessible and accurate during the 2002 filing season than it was in 2001 and (2) IRS met most of its 2002 performance goals. IRS implemented several initiatives and strategies to improve performance, particularly in the area of accuracy where improvement was greatest.

IRS serves telephone callers either through assistors, who are also known as customer service representatives (CSR), or automation, depending on how callers respond to menu prompts. As shown in figure 4, of the about 104.1 million calls that IRS received in the 2002 filing season,

- 21.2 million of the 30.4 million calls IRS estimates were from callers attempting to reach an assistor²¹ actually reached one;
- 42.9 million calls resulted in the caller receiving automated service; and
- 40 million calls resulted in the caller hanging up or being disconnected without receiving service, including callers who received a busy signal.

²¹IRS determines which callers were attempting to reach an assistor based on how they responded to menu prompts. For callers who received busy signals and, therefore, did not get a chance to respond to the menu, IRS estimates how many were attempting to reach an assistor based on the percentage of calls that were served by assistors that week. IRS's estimate of the callers who attempted to reach an assistor does not reflect callers who did not get a busy signal but yet hung up before completing the menu responses necessary to determine the type of assistance (assistor or automation) that would have handled their calls.

Figure 4: Of 104.1 Million Calls to IRS, 30.4 Million Were Covered by Accessibility and Accuracy Performance Measures



Source: GAO's analysis based on IRS's data

Note: Data are for calls made to IRS's three main live-and-automated assistance numbers; its special number for victims of the September 11, 2001, terrorist actions; and its automated-service-only (TeleTax) number from January 1, 2002, through July 13, 2002.

The measures that IRS and we used to assess the accessibility and accuracy of IRS telephone assistance during the 2002 filing season, which are discussed in the next section, reflect only the calls that IRS estimates were from callers attempting to reach an assistor.²² Specifically, the CSR level of service measure reflects the experience of the 30.4 million callers who IRS estimates were attempting to reach an assistor, and other measures reflect the experiences of the 21.2 million callers who actually reached an assistor. The measures do not reflect the experiences of the 73.7 million calls from callers who either completed an automated service

²²IRS has other measures that we are not reporting on because they do not provide adequate information to make conclusions about the ease with which taxpayers reached IRS or the accuracy of the responses they received after reaching IRS.

or hung up or were disconnected without receiving service.²³ As a result, for example, the measures do not reflect an increased number of calls in 2002 from callers who hung up without completing menu responses or an automated service. According to IRS officials, the biggest part of this increase was probably due to problems with IRS's telephone service menu, particularly during the early weeks of the filing season. When IRS revised the menu in mid-February, it noted a decline in the hang-up rate, which may indicate that taxpayers had been frustrated or confused by the menu.

Telephone Service Was More Accessible and Accurate Than Last Year, and Most 2002 Goals Were Met

Table 2 provides information on IRS's performance in providing telephone assistance to taxpayers who were attempting to reach or who received service from an IRS assistor in the 2002 filing season.²⁴ In summary, the table shows the following:

- A greater percentage of calls got through and received service, and IRS met two of its three accessibility goals for 2002. IRS likely would have performed better in the other measure, CSR level of service, if not for the significant demand for telephone assistance related to the rate reduction credit.
- The accuracy of assistance improved considerably in 2002 compared with 2001, and IRS met most of its goals. The quality and correct response rates for both tax law and account calls were better in 2002, indicating that assistors more closely adhered to IRS procedural guidance and more often provided callers accurate information and service.
- Customer satisfaction was comparable to 2001. Detailed data show that customers who were successful in reaching an assistor were least satisfied with the time they had to wait to speak with an assistor in both 2001 and 2002.

²³In [GAO-03-143](#), we recommended that IRS establish measures for its automated telephone services.

²⁴According to IRS officials, the filing season for telephone assistance generally begins January 1 and ends around July 15 each year. Although the tax return filing deadline is April 15, the demand for telephone assistance continues past the deadline as taxpayers call to, among other things, inquire about the status of their refunds or respond to notices they received from IRS about their filed returns.

Table 2: IRS's Performance in Providing Filing Season Telephone Assistance

	2001	2002	
Accessibility measures^a	Actual	Actual	Goal
CSR level of service ^b	68%	71%	72%
Assistor response level ^c	39%	51%	44%
Average speed of answer ^d	337 seconds	268 seconds	289 seconds
Accuracy measures^e			
Tax law quality rate ^f	75% +/- 1%	82% +/- 1%	78%
Accounts quality rate ^f	69% +/- 1%	76% +/- 1%	72%
Tax law correct response rate ^g	79% +/- 1%	85% +/- 1%	85%
Accounts correct response rate ^g	88% +/- 1%	91% +/- 1%	93%
Customer satisfaction^h			
Wage and Investment			
January through March	3.45 +/- .03	3.51 +/- .03	
April through June	3.46 +/- .03	3.43 +/- .03	3.49
Small Business/Self-Employed			
January through March	3.49 +/- .03	3.52 +/- .03	
April through June	3.43 +/- .03	3.47 +/- .03	3.58

Source: IRS data.

^aAccessibility data are based on actual counts from January 1 through July 13. The actual data shown here for the 2001 filing season differ from data we cited in an earlier report. See U.S. General Accounting Office, *IRS Telephone Assistance: Limited Progress and Missed Opportunities to Analyze Performance in the 2001 Filing Season*, GAO-02-212 (Washington, D.C.: Dec. 7, 2001). According to IRS, the difference in CSR level of service is due to an error in data it provided and a change in the way it calculates the measure, and differences in the other accessibility measures are due to enhancements to the telephone database that resulted in more accurate data.

^bThe percentage of callers that IRS estimates attempted to reach an assistor that received service, including some callers that received automated service.

^cThe percentage of callers that waited 30 seconds or less before speaking to an assistor.

^dThe average number of seconds callers waited before speaking to an assistor.

^eAccuracy measures are based on representative samples and are estimated at the 90-percent confidence level from January through June.

^fThe percentage of calls in which assistors followed all IRS procedures for the call type and provided correct answers.

^gThe percentage of calls in which assistors provided correct answers for the call type, discounting procedural errors.

^hThe overall satisfaction rating on a 4-point scale based on a survey of callers who reached an assistor, estimated at the 95-percent confidence level. IRS compiles and reports these data quarterly by the two operating divisions that provide toll-free telephone assistance.

CSR Level of Service Improved Despite Increased Volume Due to the Rate Reduction Credit

The volume of calls is a key factor that can affect CSR level of service. As we previously reported, IRS data suggest that demand for telephone assistance related to the rate reduction credit was significant during the 2002 filing season and negatively affected telephone performance, especially in mid- to late-February, when the greatest number of taxpayers

IRS Made Changes to Its
Measures and Plans to Make
More

called with questions about the credit.²⁵ Although performance declined significantly during this period of peak demand for information on the rate reduction credit, IRS performed well enough during the rest of the 2002 filing season so that, as shown in table 2, the CSR level of service in 2002 improved compared with 2001, and IRS almost met its goal. According to IRS officials, although taxpayers had greater difficulty getting access to IRS's telephone system during certain weeks—when there was great demand for rate reduction credit assistance and, as discussed earlier, there were problems with IRS's telephone service menu—taxpayers, overall, had a considerably better telephone service experience in the 2002 filing season than in 2001.

Effective October 2001, IRS stopped using the assistor response level and average speed of answer measures to assess its performance in providing telephone assistance. According to IRS officials, IRS adopted these measures in fiscal year 2001 to focus its efforts on improving access and allow it to gauge its performance against world-class telephone service organizations. However, officials said that subsequent experience showed that IRS's telephone call sites do not have control over, nor are they directly accountable for, key factors that affect these measures, such as the volume of calls routed to them.

Although the sites' control over these measures may be limited, they are an important component of any assessment of IRS's telephone performance because they measure a key aspect of the customer experience—how long callers wait to speak to an assistor. In that regard, selected noteworthy public and private call centers we studied often used caller wait-time measures to set service-level goals and benchmarked their performance against the best practices of leading telephone service providers.²⁶ Without a caller wait-time measure similar to those used by others, IRS's suite of telephone measures is missing an important indicator of the ease with which taxpayers reach IRS.

According to IRS officials, the current accuracy measures, while useful in assessing the filing season, do not adequately reflect customer needs and

²⁵U.S. General Accounting Office, *Advance Tax Refund Program Was a Major Accomplishment, but Not Problem Free*, [GAO-02-827](#) (Washington, D.C.: Aug. 2, 2002).

²⁶U.S. General Accounting Office, *Customer Service: Human Capital Management at Selected Public and Private Call Centers*, [GAO/GGD-00-161](#) (Washington, D.C.: Aug. 22, 2000).

employee performance. With the assistance of a contractor, IRS developed new measures that it believes better reflect what matters most to its customers—accuracy, timeliness, and professionalism. IRS plans to baseline the new measures in 2003 and use them in 2004 to replace the current accuracy measures.

IRS Implemented Various Initiatives to Improve Telephone Service

IRS implemented several initiatives to improve telephone service in the 2002 filing season. For example, IRS established accessibility performance measures and goals for its call sites and enhanced its call-routing capabilities to provide taxpayers better access to assistors. IRS also implemented several initiatives, including earlier assistor training, as part of a strategy to improve accuracy and piloted a new hiring program to get candidates with higher aptitudes and skill levels.

IRS Established Accessibility Performance Measures and Goals for Call Sites

In 2002, IRS established two new accessibility performance measures—services provided and total handle time²⁷—and related goals for its 26 telephone call sites. These measures replace those discontinued in 1998. IRS officials said that the measures and goals were intended to provide the sites with incentives for handling calls efficiently and answering their share of total calls, thereby enhancing their contributions to meeting IRS’s overall accessibility goals. According to IRS officials, the new measures led to improved performance by giving the call sites a clearer understanding of what they were expected to achieve and how their performance would help IRS achieve its goals. IRS took action to get employees to understand the measures and contribute to achieving goals, by, for example, holding “leadership conferences” for telephone operations managers similar to those conducted in the processing centers.

IRS Enhanced Call Routing

IRS enhanced its call routing system by implementing a feature, called “network call screening.” Before network call screening, IRS’s contract long-distance service provider routed calls to one of IRS’s call sites where the caller heard and responded to a menu of options. The number of calls IRS received often exceeded its telephone system capacity, resulting in many calls receiving busy signals. Also, because calls were routed before the callers had indicated, through use of a menu, the subject matter of their calls, callers were sometimes given access to only automated service,

²⁷“Services provided” counts the number of times callers reached assistors. “Handle time” measures the total time an assistor spent talking to a taxpayer, keeping the taxpayer on hold, and finishing the call—up to the time the assistor indicated his or her readiness to receive another call.

even though assistors were available to handle their calls. With network call screening, callers hear and respond to the menu options before the call is routed to a call site. According to IRS officials, this reduced the number of calls that receive busy signals, increased the chance that a caller would reach an assistor, and decreased wait times. In that regard, (1) IRS data show that the number of busy signals callers received decreased from about 1.5 million in the 2001 filing season (or about 3 percent of total call attempts) to about 0.7 million in the 2002 filing season (or about 1 percent of total call attempts) and (2) an IRS analysis showed that the percentage of calls sent to automated-only service decreased from 11 percent in the 2001 filing season to 8 percent in the 2002 filing season.

IRS Implemented an Accuracy Improvement Strategy

According to IRS officials, improving the accuracy of telephone assistance was a major emphasis in planning for the 2002 filing season. With the assistance of a contactor, IRS analyzed its accuracy data to identify problems and developed initiatives to improve accuracy. IRS's accuracy rates in January were historically the lowest of any month for tax law inquiries and, according to the analysis, a classic learning curve was evident from January through April. IRS implemented several initiatives to combat this January slump, including training assistors in their specialized topics in November and December and requiring their managers to certify them, by the start of the filing season, as capable of providing the correct response to taxpayer questions. Other initiatives included reviewing and correcting the guidance assistors use to respond to taxpayer questions and assigning call site managers ownership of selected tax law topics, thus making them accountable for assistor training and improving assistors' performance in their assigned topics.

IRS Tested a New Process for Hiring Better Qualified Assistors

For the 2002 filing season, IRS piloted a new hiring method at some call sites to improve service to taxpayers by hiring better-qualified assistors. The new method used live role-playing to identify candidates with the required competencies for successful job performance, free up front-line manager's time previously spent interviewing possible candidates, and reduce assistor turnover. As we previously reported, IRS officials have said that attrition has negatively affected IRS's performance,²⁸ and the lack of time to interview applicants has led to concerns about the suitability of

²⁸GAO-02-212.

new hires.²⁹ With respect to attrition, IRS data showed that the turnover rate at sites that hired under the new process was 9.3 percentage points lower than the turnover rate at comparable call sites that used the traditional hiring method. IRS plans to expand this initiative in 2003.

Quality of Walk-in Assistance Showed Some Improvement, While the Number of Taxpayers Assisted Continued to Decline

Quality of walk-in assistance improved and wait-time was about as good as last year, based on available information, although fewer taxpayers were assisted. The accuracy of walk-in tax law assistance—the only type of walk-in assistance³⁰ for which quality was measured in recent filing seasons—appears to have improved compared with the 2001 filing season. IRS took several steps in 2002 to improve walk-in service—some may have helped improve the accuracy of tax law assistance in 2002, the effect of others should be realized later. IRS also anticipates changes in the workload to be handled by walk-in staff. Thus, although the number of taxpayers assisted at the walk-in sites declined about 20 percent over the past 3 filing seasons, IRS has been increasing the number of field assistance staff years used to provide that assistance. However, the extent and timing of the workload changes are not clear, and field assistance does not have comprehensive plans that clearly relate that workload to resource needs.

Accuracy of Tax Law Assistance by Walk-in Sites Improved Since Last Year but Remains Low

The Congress directed TIGTA to review the accuracy of assistance provided by all of IRS's more than 400 walk-in sites. TIGTA expects to complete its review in fiscal year 2003. From January through April 2002, TIGTA reviewers made 157 anonymous visits to 77 walk-in sites,

²⁹U.S. General Accounting Office, *IRS Telephone Assistance: Opportunities to Improve Human Capital Management*, [GAO-01-144](#) (Washington, D.C.: Jan. 30, 2001).

³⁰In general, taxpayers who visit IRS walk-in locations can obtain (1) tax forms and publications; (2) answers to questions about the tax law; (3) assistance with their tax accounts; (4) limited return-preparation assistance; and (5) various other types of assistance, such as help getting a taxpayer identification number.

asking two tax law questions on each visit. TIGTA found that only about 50 percent of its questions were answered correctly.³¹

The reviews TIGTA did in 2002 were not comparable to the reviews it did in 2001 because TIGTA asked questions from a broader range of tax law topics in 2002 (i.e., 22 topics in 2002 compared with 4 topics in 2001). It seems reasonable to assume, and TIGTA agrees, that covering 22 topics versus 4 required a broader knowledge of the tax law and thus increased the possibility for error. Yet, despite the increased possibility for error, reported accuracy was about double the 24-percent accuracy TIGTA reported for 2001.

In commenting on a draft of this report, the Acting Commissioner of Internal Revenue said that our use of TIGTA's accuracy rates is inappropriate because TIGTA included referrals to IRS publications as errors. While noting that IRS does not want employees to improperly refer questions, the Acting Commissioner said that those referrals should not be counted as incorrect answers. According to the Acting Commissioner, the "true cumulative accuracy rate" through June 2002 was 66 percent instead of 50 percent. We disagree. As TIGTA explained in its report, referrals were counted as incorrect when the IRS employee merely provided the publication, without walking the customer through it to identify the answer, as required by established field assistance procedures. In our view, the complexity of tax laws and varying education levels among taxpayers seeking assistance suggest that requiring field assistance employees to walk the taxpayer through a publication to identify the correct response is a necessary procedure that should be followed in practice for the response to be considered correct.

³¹The 50-percent accuracy rate represents the cumulative rate from visits done from January through April 2002; the true accuracy rate will not be known until TIGTA completes its reviews in fiscal year 2003. TIGTA reviewers considered responses correct when they were answered accurately and in enough detail to avert filing errors. Conversely, they considered responses incorrect when walk-in staff did not answer accurately or in enough detail, referred reviewers to a publication without walking them through it to get the right answer as required by field assistance procedures, or denied assistance by failing to either answer their question or refer them to someone who could.

Most Taxpayers Waited 30 Minutes or Less for Walk-in Assistance in 2002, but Many Others Waited Much Longer

IRS's data for January 1 through April 20, 2002, showed that about 85 percent of the 2.6 million walk-in customers for whom wait-time was tracked waited 30 minutes or less to obtain assistance between January 1 and April 20, 2002.³² However, IRS made the following two changes to the way it reported wait-time in 2002 that precluded any comparison to 2001.

- IRS reduced the number of sites for which wait-time data was tracked. In 2001, all walk-in sites tracked wait-time either automatically, if they were equipped with the Queuing Management System (Q-Matic), or manually, if they did not have Q-Matic.³³ As of March 2002, however, the approximately 297 sites not equipped with Q-Matic were no longer required to track or report wait-time—a decision we believe was prudent because manual tracking was not practical at some sites with limited staff and because manual tracking of wait-times is an error-prone process.
- IRS doubled the threshold used for wait-time tracking from 15 minutes or less in 2001 to 30 minutes or less in 2002, thus increasing the reported percentage of taxpayers receiving timely assistance.

The bi-weekly wait-time reports submitted by the sites and derivative summary data provided to us by IRS did not provide any details on the wait-times for the 15 percent of customers (about 384,000 taxpayers) who waited longer than 30 minutes for assistance, even though this information was available through Q-Matic,³⁴ thus limiting management's ability to identify and minimize excessive wait-time.

IRS Took Steps in 2002 to Improve Walk-in Service

IRS took steps to improve its walk-in service, some of which may have helped improve the accuracy of tax law assistance in 2002. Other efforts that involve implementing two new accuracy measures and testing new

³²Beginning with fiscal year 2001, IRS discontinued wait-time as an official measure of field assistance performance because, according to field assistance officials, employees felt pressured to hurry assistance to customers, which could diminish other aspects of quality, such as accuracy. Nevertheless, realizing that timeliness is an important aspect of quality, IRS has continued to track and report wait-time.

³³Q-Matic is an automated system that keeps track of such things as customer wait-times, assistance provided, and staff time used.

³⁴In general, Q-Matic records the number of customers whose wait-times fell into each 15-minute interval, ranging from less than 15 minutes to less than 2.5 hours, as well as the number that waited longer than 2.5 hours.

IRS Took Steps to Improve Accuracy in 2002

Q-Matic requirements have the potential for improved service in the future.

Field assistance officials said that they had taken a number of steps to improve the accuracy of assistance in 2002. For example, they said that IRS had completed all actions listed in response to our report on the 2001 filing season³⁵—which included providing more consistent and standardized services, better training, and improved access to taxpayer account information. IRS also refined the process for referring complex tax law questions that are beyond the scope of normal walk-in staff training to expert field assistance, toll-free telephone, or compliance staff. The impact of some of those improvement efforts seemed to be reflected in the results of IRS's annual employee satisfaction survey. For example, 49 percent of field assistance employees reported being satisfied with their training in 2002 compared with the 37 percent who reported being satisfied in 2001.

IRS Implemented Two New Accuracy Measures

IRS implemented two new accuracy measures for account and return-preparation assistance. We are concerned about one of those measures—account accuracy—because the results of that measure are not representative of all walk-in sites. Instead of using statistical sampling methods to select the sites to be reviewed from among the about 420 sites that provide account assistance, IRS selected for review the largest walk-in sites from among the 123 that were equipped with Q-Matic.

IRS had also planned to measure return-preparation accuracy through visits to the largest walk-in sites. IRS subsequently decided to use existing return-accuracy data generated by the submission processing centers. This will allow IRS to measure the accuracy of all returns prepared at its walk-in sites, rather than basing the measure on sample observations.

IRS Is Testing New Q-Matic Requirements

In May 2002, IRS changed its Q-Matic requirements to include networking and summary reporting capabilities and decided to test these changes at 28 walk-in sites in California. In a stand-alone configuration, Q-Matic provides site-level, real-time monitoring and tracking of assistance, including customer wait-times, assistance provided, and staffing used. Networking the systems is expected to provide the same real-time monitoring and tracking at organizational levels above the site—group, territory, area, and nationwide. Summary reporting capability is expected

³⁵ [GAO-02-144](#).

to eliminate the requirement for manually recording and summarizing assistance provided and staff resources used, which should enhance site efficiency by increasing employee availability to provide more, or more timely, assistance.

Number of Taxpayers Assisted Declined, but Field Assistance Staffing Has Increased

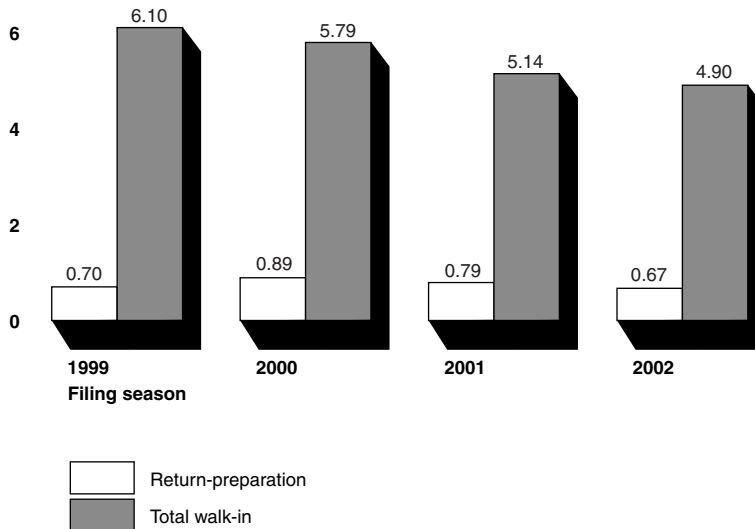
As shown in figure 5, the number of taxpayers assisted at IRS walk-in sites³⁶ declined for the third consecutive filing season—from 6.1 million in 1999 to 4.9 million in 2002—a drop of about 20 percent. Included in that overall decline was a decrease in the number of contacts involving return preparation, a very time-consuming service.³⁷

³⁶Although the numbers may vary during the year, in 2002 IRS provided walk-in assistance through approximately 420 walk-in sites that generally provide the full range of assistance on a year-round basis, 50 alternate sites (such as at libraries and shopping malls) and 7 vans or mobile units that are set up mainly to provide return-preparation assistance only during the filing season, and 15 self-service computer/printer stations (i.e., kiosks) that print tax forms and provide answers to frequently asked tax law questions.

³⁷Field assistance officials estimated that return-preparation assistance accounted for only about 10 percent of their walk-in contacts but consumed about 25 percent of walk-in staff years.

Figure 5: IRS Walk-in Assistance, 1999-2002 Filing Seasons

8 Millions of taxpayers



Source: IRS data.

Notes: "Total Walk-in" includes all face-to-face assistance. It does not include the number of taxpayers assisted by walk-in employees via telephone or correspondence, which ranged from over 100,000 taxpayers in 1999 to over 125,000 taxpayers in 2002.

The time periods covered by this figure each began on January 1 and ended on April 24, 1999; April 22, 2000; April 21, 2001; and April 20, 2002.

Field assistance officials attributed these declines to the following two factors:

- Taxpayers made greater use of the assistance available from volunteers and from IRS's Web site and toll-free telephone network. Data provided by the two major volunteer organizations—Volunteer Income Tax Assistance and Tax Counseling for the Elderly—confirmed that volunteer assistance increased substantially. Specifically, the number of taxpayers assisted at volunteer sites increased about 45 percent from nearly 2.5 million to 3.6 million between the 2001 and 2002 filing seasons. Data on IRS's Web site and toll-free telephone network are discussed elsewhere in this report.
- IRS has been reducing the income ceiling for return preparation assistance, thus limiting the number of taxpayers eligible to receive that kind of assistance. For the 2001 filing season, IRS had a ceiling of \$41,000. For the 2002 filing season, IRS reduced that ceiling to

\$33,000—a level that approximated the \$32,121 income ceiling on taxpayer eligibility for the earned income credit.

Traditionally, IRS has detailed staff from its compliance functions (such as Examination and Collection) to help provide assistance at walk-in sites. Over the last 2 filing seasons, IRS has reduced its reliance on compliance staff to provide walk-in assistance by about 53 percent, thus freeing those staff to perform their normal examination and collection duties. At the same time, and despite the continued decline in the number of taxpayers assisted, IRS increased the number of field assistance staff years by about 31 percent, in anticipation of field assistance staff eventually assuming some work currently done by IRS's compliance functions, such as office audits.

Field Assistance Has No Comprehensive Workload and Staffing Plans

Field assistance does not have clear, comprehensive plans and timetables for making the workload changes just discussed as well as other changes. When we discussed this issue with field assistance officials, they informed us that they have put their plans on hold until anticipated compliance workloads are clarified to enable more comprehensive planning. Field assistance officials anticipated that some compliance work would migrate to walk-in staff over the next several years, although the extent and timing of that work was not yet clear. As of October 4, 2002, a team was studying the technological and other issues associated with compliance work anticipated to be done at walk-in sites. Field assistance officials also planned to phase out sites staffed with only one employee, because of difficulties providing back-up staff,³⁸ and add many new walk-in sites. The planned phase-outs were to be done through a combination of methods, such as staff attrition and/or site consolidation. Instead of closing some one-employee sites, IRS may add staff where warranted by demand. However, field assistance officials told us that these site changes also have been put on hold until the aforementioned comprehensive planning is completed.

³⁸IRS reported having 83 one-person sites during the 2002 filing season.

Performance of IRS's Web Site Was Generally Better Than Last Year, but Improvements Still Needed

Our assessment of IRS's Web site on the Internet, external assessments of the site, and IRS data indicate that, compared with last year, the site was

- more user friendly, although there are certain aspects of the site that need attention;
- generally used more often, although IRS's primary measure of usage—number of hits—is flawed; and
- easier to access.

IRS's Web site provides a vehicle whereby taxpayers can receive assistance without having to call or visit an IRS office. Among other things, the site provides the potential to download hundreds of tax forms and publications, contains current information on tax issues and electronic filing, and gives taxpayers the opportunity to ask IRS tax law and procedural questions via E-mail (see app. V for information on IRS's performance in answering E-mail questions.)

Web Site More User Friendly Than Last Year

Our observations of IRS's Web site indicated that the site was more user friendly than it was in 2001, although we still encountered some navigation problems and identified some problems with the site's content.

Navigation of Web Site

The Web site had many changes that improved navigation over 2001. For example, the home page was formatted more logically, with like items being grouped together, and we observed only a couple of broken links compared with last year when we found many more.³⁹ However, there were still some navigational problems. The most significant problem in navigating the site is a search engine that often generates a very large number of items relating to the subject of the search, which makes it extremely difficult to locate the most useful/appropriate item. For example, when we entered "earned income credit" into the general search engine, we were provided a list of over 1,500 items. The publication that would provide someone interested in the earned income credit with the most thorough information (Publication 596—"Earned Income Credit") was the 64th item on the list. This would require users to scroll through 6 pages of items before finding the basic publication dealing with the subject of the search.

³⁹ According to a cognizant IRS official, a tool that helps eliminate broken links was not added to the site in 2002 as IRS had originally intended; implementation is now planned for 2003.

We also noted the following navigation problems.

- The E-mail and comments sections of the Web site are difficult to find. The links to pages for users to leave E-mail questions or to provide IRS with comments on the site were not accessible through the “Contact Us” part of the site, where one might logically expect to go to send an E-mail or comment to IRS, but rather through the “Help” part of the site. In that regard, IRS officials responsible for answering E-mail questions informed us that they believe the number of E-mail questions received this year declined, as discussed in appendix V, because individuals may have had trouble locating the E-mail section of the Web site. According to IRS officials responsible for the Web site, the E-mail feature was not made easier to locate because IRS is still considering whether it is best to answer taxpayer questions via the Web site or the telephone.
- We had difficulty in May 2002 finding telephone numbers and other information for local field assistance sites. For example, the page entitled “How to contact us in Virginia” said to use local numbers if they are not long distance, otherwise use the toll-free 800 number. However, to obtain local numbers, we had to scroll through 11 other topics, including information on where to file a return, TeleTax, Braille materials, and volunteer and education programs. Since then, IRS has taken steps to make this process less cumbersome.
- We found linkage problems in addition to the missing links noted earlier. For example, when we accessed IRS’s Web page for electronic filing options and paying taxes electronically, we found several references to more data that we could obtain. However, the link to those data was www.irs.gov, where we already were, rather than the appropriate areas of the site.

Content of Web Site

We identified some problems with the content of IRS’s Web site. First, the site used document numbers as primary identifiers for publications, instructions, and forms. Many taxpayers do not know the numbers of forms and publications, which requires them to examine voluminous data to find the specific information they are seeking. For example, if taxpayers were looking for data on the earned income credit and did not know that Publication 596 is the primary publication on that topic, typing “earned income credit” in the form and publication search engine would produce a list of about 1,600 publications that mention the credit. Here again, as we noted earlier with respect to the general search engine, a taxpayer would have to scroll through several pages of the list to find Publication 596. IRS is aware of this problem with its search engines and is working with contractors to identify solutions.

Second, we continued to find some incorrect and inconsistent data, outdated material, and missing information, but not as much as last year. For example, during our review of the Web site in 2002, we found that the site had incorrect office hours and addresses for walk-in assistance sites and obsolete data that pertained to 2001. In our report on the 2000 filing season, we made recommendations to help ensure that the Web site contained accurate and consistent data.⁴⁰ In response to our recommendations, according to IRS officials, IRS awarded a site redesign contract, instituted an interim process that required executives to approve all new data and significant changes to existing data, and began implementing a content management program that is expected to be fully operational around May 2003. Although these steps appear to have reduced the volume of inaccurate and inconsistent data, a cognizant IRS official opined that it would take about 2 years before all data on the Web site are made current and consistent.

Two independent assessments tended to confirm our observations on IRS's Web site. In that regard:

- Arthur Andersen's Office of Government Services Experience Design Group concluded that the current version of the site is an improvement over the previous version but still requires some fine-tuning to be truly useful. They too noted that the search engines often result in a very large number of items relating to the subject of the search making it extremely difficult to locate the most useful/appropriate item.
- Brown University's Center for Public Policy evaluated how well 50 federal government Web sites would aid an average citizen logging onto a public sector Web site. IRS's site received a score of 76 out of 100, making it the eighth highest rated Web site in the study.

Available Data Show Increase in Web Site Use in 2002

IRS's two key measures for gauging the use of its Web site are "hits" and "downloads." Both of those measures showed increased usage in 2002 compared with 2001. As of May 31, 2002, the site had recorded about 2.2 billion hits compared with about 1.7 billion hits at the same point in time in 2001, a 27-percent increase. As of August 31, 2002, about

⁴⁰U.S. General Accounting Office, *Tax Administration: Assessment of IRS' 2000 Tax Filing Season*, [GAO-01-158](#) (Washington, D.C.: Dec. 22, 2000).

379 million forms, publications, and instructions had been downloaded compared with about 279 million in 2001, a 36-percent increase.⁴¹

However, as we have reported before, hits is a flawed measure of use because (1) every time a user accesses IRS's home page it counts for about 16 hits and (2) a hit is counted every time the user moves to another page of the site.⁴² Thus, an increase in the number of hits may not necessarily be due to increased usage but could be attributed to changes in the structure of the home page or problems users are experiencing in finding what they want on the site. IRS officials had informed us that the problem would be corrected by an improved method for counting hits when a more sophisticated comprehensive Web analytical program became operational in January 2002. Although the new analytical program is operational, the problem remained. However, our concern about the hits measure could be mitigated by the development of another Web site performance measure—unique visitors. According to a cognizant IRS official, IRS is now able to track unique visitors to the Web site and has begun the process to formalize that measure.⁴³

Web Site's Availability and Average Delivery Time Improved in 2002

Keynote, an independent Web site rater and a recognized authority on Internet performance, reviewed the availability and average delivery time of IRS's Web site and reported improved performance during the 2002 filing season. Keynote reported that its measure of IRS's Web site's availability averaged close to 100 percent (99.8 to 100 percent) during the entire 2002 filing season. This is a significant improvement over the 2001 filing season when Keynote identified periods during which availability was as low as 67 percent before rebounding to about 97 percent for the first 2 weeks of April. Keynote reported an average delivery time in 2002 of 1 second or less for the entire filing season compared with 2 seconds or more for most of the 2001 filing season.

⁴¹IRS updated this information as of September 30, 2002, in its written comments on a draft of this report (see app. VI).

⁴²[GAO-02-144](#) and [GAO-03-143](#).

⁴³If someone accesses IRS's site and moves around the site, the unique visitor measure would count that as one visit, no matter how many hits the person accumulates while navigating the site. If the person leaves the site and returns again after at least 1 hour has elapsed since exiting the site, the person will be counted as a new unique visitor.

Conclusions

Generally, during the 2002 filing season, IRS processed returns and issued refunds smoothly, and the quality of assistance provided to taxpayers improved. In light of this performance, IRS should be commended for the various efforts it took to prepare for and improve performance during the filing season. IRS's filing season performance matters because it impacts well over 100 million taxpayers.

IRS established performance measures to emphasize accountability and improve service. IRS's improved performance can be traced to its use of and emphasis on performance measures, illustrating the importance of good measures that effectively assess performance and enable improvements to be quantified. IRS has established some new measures and has revised some existing measures, which should serve to further enhance its performance assessments. However, we believe that some decisions, specifically (1) the decision to stop using the "assistor response level" and "average speed of answer" measures to assess telephone service; (2) not reporting readily available Q-Matic information showing the extent of customer wait-times; and (3) limiting reviews of account accuracy to only some walk-in sites, will reduce IRS's ability to gauge the level of service being provided to customers. With respect to the latter, IRS's decision to use existing data to measure return-preparation accuracy in lieu of having staff visit walk-in sites to observe return preparation could free up the resources needed to expand the reviews of account accuracy. IRS also needs to ensure that changes to walk-in sites and staffing are thoroughly analyzed and planned.

Recommendations for Executive Action

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

- Reinstated a telephone assistance caller wait-time measure, such as assistor response level or average speed of answer, to assess this important aspect of the customer experience.
- Revised bi-weekly wait-time reports to show the numbers and percentages of customers in each of the wait-time intervals tracked by Q-Matic.
- Explored the feasibility of including all walk-in sites, rather than just sites equipped with Q-Matic, in the universe for the purpose of conducting sample visits/reviews of the accuracy of account assistance.
- Ensured that field assistance officials do a comprehensive evaluation of resource requirements (sites and staffing) after clarifying the extent

and timing of (1) expected field assistance and compliance workloads and (2) expected walk-in site changes (additions and closures).

Agency Comments and Our Evaluation

We requested comments on a draft of this report from IRS. The Acting Commissioner of Internal Revenue provided written comments in a December 16, 2002, letter (see app. VI). The Acting Commissioner appreciated our recognition of the many challenges that IRS successfully faced during the planning and execution of the 2002 tax filing season and noted that IRS's filing season readiness process "served us well, especially in handling unanticipated challenges."

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

- IRS agrees that customer wait-time is an important aspect of toll-free telephone service and will "begin refining an appropriate wait time measure" for implementation in fiscal year 2004.
- In response to our recommendation that IRS revise its bi-weekly wait-time reports, IRS said that it currently does not use wait-time as an official measure of field assistance performance because past experience has shown that employee reaction to timeliness measures tends to increase the likelihood of inaccurate or incomplete answers. We are aware of IRS's position on having an official wait-time measure and discussed our disagreement with that position in our report on IRS's filing season performance measures.⁴⁴ Our recommendation in this report is not directed at the existence or non-existence of a wait-time performance measure. It is directed, instead, at enhancing the information available to field assistance managers in the bi-weekly wait-time reports. IRS did not speak to that issue in its comments.
- Working with staff from IRS's Statistics of Income group, field assistance has developed a statistically reliable sample of accounts work. For fiscal year 2003, IRS said it plans to sample small, medium, and large walk-in sites. These plans should provide for a more representative assessment of the level of account assistance being provided to walk-in customers and, as such, appear to be responsive to our recommendation.

⁴⁴[GAO-03-143](#).

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- In response to our recommendation that field assistance do a comprehensive evaluation of resource requirements, IRS said that it is doing a workload and staffing study that will provide detailed information on the location of field assistance work and where IRS should provide service and staffing. According to IRS, although it had previously projected the need to add new sites, it is currently projecting shortages in field assistance staffing for fiscal year 2004 that may cause it to reassess the number and location of walk-in sites. The study described by IRS appears responsive to our recommendation.

The Acting Commissioner also commented on our use of TIGTA's reported accuracy rate for tax law assistance provided by walk-in sites. We addressed those comments earlier in the report where TIGTA's reported accuracy rate is discussed.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Finance and the House Committee on Ways and Means and the Ranking Minority Member, Subcommittee on Oversight, House Committee on Ways and Means. We are also sending copies to the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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

Sincerely yours,



James R. White
Director, Tax Issues

Appendix I: Data on IRS's Processing Performance Relative to Fiscal Year 2001 Performance and Fiscal Year 2002 Goals

As shown in table 3, (1) the Internal Revenue Service's (IRS) performance in 2002 improved relative to 2001 for five measures and (2) IRS met its 2002 performance goals for four measures and missed its goals for two measures. IRS's performance in 2002 could not be compared with its performance in 2001 for three measures or with its goals for 2002 for two measures because IRS revised the way those measures were computed.

Table 3: IRS's Processing Performance Relative to Fiscal Year 2001 Performance and Fiscal Year 2002 Goals as of September 2002

Measure name	Description	Fiscal year 2001 actual ^a	Fiscal year 2002 goal	Fiscal year 2002 actual	Revisions to measure	Comments
Deposit error rate ^b	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted any overpayment credited to next year's tax bill.	5.0%	3.4%	4.8% +/- 0.3%	None known.	Performance improved, but performance goal not met. According to IRS officials, the goal was too challenging and performance was consistent with 2001.
Deposit timeliness—paper	Interest value of money not deposited by the business day after receipt per \$1 million in deposits. Measure assumes an 8 percent interest rate.	\$748	\$751	\$578	None known.	Performance improved, and performance goal met.
Letter error rate ^b	Percentage of letters issued to taxpayers with errors, (includes systemic errors). ^c	Not comparable because of revisions to the measure.	10.9%	7.4% +/- 0.6%	Revised measure to exclude errors that cause a letter to look unprofessional but do not affect its accuracy.	We cannot assess if 2002 performance goal was met due to the exclusion of professionalism errors.
Notice error rate ^b	Percentage of incorrect notices issued to taxpayers (includes systemic errors). ^c	Not comparable because of revisions to the measure.	15.2%	18.7% +/- 2.7%	Revised measure to (1) exclude errors that cause a notice to look unprofessional but do not affect its accuracy and (2) include all processing notices, some of which we reported were inadvertently omitted in 2001 (see GAO-02-144).	We cannot assess if 2002 performance goal was met due to the exclusion of professionalism errors. According to IRS officials, employee confusion over new error codes associated with the rate reduction credit led to more erroneous notices, thereby increasing the notice error rate.

**Appendix I: Data on IRS's Processing
Performance Relative to Fiscal Year 2001
Performance and Fiscal Year 2002 Goals**

Measure name	Description	Fiscal year 2001 actual^a	Fiscal year 2002 goal	Fiscal year 2002 actual	Revisions to measure	Comments
Refund error rate – individual (paper) ^b	The percentage of refunds with IRS-caused errors in the entity information (e.g., name or Social Security number) or refund amount; includes systemic errors. ^c	9.8%	9.3%	8.0% +/- 3.8%	Although this measure was revised to exclude errors that cause a refund check to look unprofessional, the revision did not require establishment of a new baseline.	Performance improved, and performance goal met.
Refund interest paid	Amount of refund interest IRS paid per \$1 million of refunds issued.	\$128.63	\$94.14	\$62.55	None known.	Performance improved, and performance goal met. According to officials, IRS implemented strategies to address refund interest, resulting in lower refund interest paid in 2002.
Refund timeliness – individual (paper) ^b	Percentage of refunds issued in 40 days or less.	95.2%	98.4%	98.2% +/- 2.3%	Measure revised to reflect new start date procedures; 2001 performance data converted to allow for comparison.	Performance improved. We consider IRS to have met the 2002 performance goal because a certain degree of imprecision exists due to sampling and the reported result differed from the goal by a statistically negligible amount.
Productivity ^d	Weighted volume of documents processed per staff year expended at the processing centers.	Data being revised.	29,836	28,182	Measure revised to reflect additional workload; 2001 performance data being converted to allow for comparison.	Performance goal not met. According to IRS officials, productivity may have been lowered by (1) the increased error-correction workload resulting from the rate reduction credit and (2) changes associated with IRS's reorganization.

Source: IRS data.

^aThese figures may be different than what IRS previously provided and we reported in GAO-03-143. IRS converted 2001 data to provide comparability between fiscal years 2001 and 2002.

**Appendix I: Data on IRS's Processing
Performance Relative to Fiscal Year 2001
Performance and Fiscal Year 2002 Goals**

^bWe previously reported on potential reliability weaknesses associated with these measures because data are collected manually and evaluations of data are based on judgment. See U.S. General Accounting Office, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington D.C.: Nov. 22, 2002).

^cSystemic errors are computer generated errors over which a particular processing center would have no control.

^dWe reported concerns about the understandability and appropriateness of this measure in GAO-03-143 because the measure's definition is not clearly stated, unit managers do not understand their unit's contribution to the formula, and unit managers do not use the measure to assess performance.

Appendix II: Challenges Affecting the 2002 Filing Season and IRS's Response

The following significant challenges were unique to the 2002 filing season:

- Passage of the Economic Growth and Tax Relief Reconciliation Act of 2001, specifically the provisions relating to advance tax refunds and rate reduction credits.
- The September 11, 2001, attacks, which led to actions by IRS to provide tax relief to affected taxpayers, and the subsequent anthrax attacks perpetrated through the mail, which led to significant security enhancements.
- IRS's shifting of computer files in conjunction with its reorganization.

Advance Tax Refunds and the Rate Reduction Credit Led to Many Errors on Filed Returns

For tax years beginning after 2000, the Economic Growth and Tax Relief Reconciliation Act of 2001, signed into law on June 7, 2001, applied a new 10-percent income tax rate to a portion of an individual's income that was previously taxed at 15 percent. To stimulate the economy more rapidly than would be achieved if taxpayers had to wait until they filed their tax year 2001 return to realize the full impact of this rate reduction, the act provided for eligible taxpayers to receive an advance tax refund in 2001. The amount of the refund was to be based on the filing status and amount of taxable income on the taxpayer's 2000 return.

Taxpayers who were eligible to receive an advance tax refund in 2001 but who (1) did not receive a check because IRS did not have their current address or (2) did not have enough taxable income in 2000 to qualify for the maximum amount allowable, may have been entitled to a rate reduction credit when filing their tax year 2001 returns.¹ In addition, taxpayers who were not eligible for an advance tax refund, such as those who did not have taxable income in 2000, may have been entitled to a rate reduction credit provided they had taxable income in 2001.

According to IRS, passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 required computer system programming changes that were complicated by frequent revisions as the Congress and the U.S. Treasury worked together to understand the legislative requirements for the rate reduction credit. This resulted in concurrent testing of those and other computer system changes. After the filing season began and large numbers of returns were received with errors related to the rate reduction credit, IRS made additional programming

¹A rate reduction credit would reduce a taxpayer's 2001 tax liability and could result in a tax refund once the 2001 return was filed.

changes until March 2002 to help manage the high number of errors and assist tax examiners in correcting them.

As shown in table 4, as of September 27, 2002, IRS had identified over 8 million individual returns with rate reduction credit errors, which represented 57 percent of the returns identified with errors and 6.5 percent of the total number of returns processed at that time.

Table 4: Processed Returns with Rate Reduction Credit Errors as of September 27, 2002

Returns prepared by	Number of returns processed	Number of returns with errors	Percentage of returns with errors	Number of returns with rate reduction credit errors	Percentage of returns with rate reduction credit errors	Rate reduction credit errors as a percentage of returns with errors
Taxpayers	49,939,318	8,369,035	16.8%	4,208,991	8.4%	50.3%
Tax return practitioners	73,013,833	5,691,483	7.8%	3,816,860	5.2%	67.1%
Total	122,953,151	14,060,518	11.4%	8,025,851	6.5%	57.1%

Source: GAO's analysis of IRS's data.

Note: The number of returns processed does not include about 4.2 million returns that were filed via TeleFile.

Taxpayers and tax return practitioners made various types of errors related to the rate reduction credit during the 2002 tax filing season. For example,

- taxpayers and practitioners filed over 5 million returns in which they failed to claim a credit even though the taxpayers were entitled to one;
- about 2 million returns were filed in which a credit was claimed even though the taxpayers had received the maximum advance tax refund in 2001 and thus were not entitled to a credit; and
- almost 1 million returns were filed in which a credit was appropriately claimed, but the credit amount was incorrectly computed.

Problems Related to the Rate Reduction Credit Were Identified Early in the 2002 Filing Season

The Treasury Inspector General for Tax Administration (TIGTA) identified and IRS corrected two problems related to the rate reduction credit. One problem involved the lack of advance tax refund data in the National Accounts Profile (NAP) for certain taxpayers.² According to TIGTA, IRS corrected this problem by January 11, 2002, thus preventing about 217,000 taxpayers from receiving up to \$50 million in rate reduction credits to which they were not entitled. The other problem, which TIGTA attributed to a misinterpretation of programming requirements, involved IRS's failure to add information in the NAP for some taxpayers who did not receive an advance tax refund. According to TIGTA, it notified IRS of this problem, which could have affected as many as 35 million taxpayers, on January 8, 2002, and IRS made the necessary corrections by January 15, 2002.

IRS field staff identified another problem in which IRS's computer system was generating rate reduction credits for some taxpayers who had already received the maximum advance tax refund. According to IRS officials, this problem would have affected no more than about 15,000 taxpayers, who in a worst-case scenario may have received an additional \$300 credit, for a total of \$4.5 million in potentially erroneous credits. According to the officials, IRS will not attempt to recover any erroneous payments resulting from this problem because recovery would not be cost-effective.

IRS Handled the Extra Workload from the Rate Reduction Credit

To help handle the additional error correction workload resulting from the rate reduction credit workload, IRS, among other things, briefly detailed individuals from other projects, hired retirees, and postponed activities, such as technical training and performance reviews, that were eventually completed later in the year.

The Rate Reduction Credit Affected Performance Relative to Two Measures

The rate reduction credit directly and adversely affected IRS's performance relative to its notice error rate and productivity performance measures. According to IRS officials, (1) employee confusion over new error codes associated with the rate reduction credit led to more erroneous notices, thereby increasing the notice error rate, and (2) the

²NAP is an IRS database with information on taxpayers' names, addresses, and SSNs. To help determine whether taxpayers were correctly claiming the rate reduction credit on their 2001 tax returns, IRS included information on advance tax refunds in NAP.

new codes associated with the rate reduction credit initially reduced processing efficiency and caused lower productivity rates.

Many Taxpayers Received Corrected Rate Reduction Credits

According to IRS officials, IRS sent corrected rate reduction credits to about 1.6 million taxpayers. When IRS originally reviewed these taxpayers' returns, it was determined that the taxpayers had underclaimed the amount of their rate reduction credits. However, in accordance with IRS policy about making corrections under certain monetary thresholds, IRS did not initially correct the errors or give the taxpayers the additional amounts. During its review of the 2002 filing season, TIGTA pointed out that the policy seemed inequitable because the same kind of threshold was not used in determining the amount of a taxpayer's advance tax refund—thus the amount taxpayers received could vary depending on whether they received their money in the form of an advance tax refund or a rate reduction credit. According to IRS officials, these taxpayers' returns did not go to error correction and, thus, are not included in the number of returns with rate reduction credit errors in table 4—which IRS officials believe contributed to their ability to handle the substantial error-correction workload.

Terrorist Actions Required Tax Relief for Affected Taxpayers and Security Enhancements

The terrorist actions in 2001 created additional challenges to which IRS responded. The September 11, 2001, terrorist actions created challenges by causing additional workload and requiring concurrent testing of the programming changes related to that workload with other testing. For example, according to IRS officials, programmers modified computer systems in order to suppress certain correspondences, such as balance due notices, to taxpayers affected by the terrorist actions. IRS officials also reported that where the correspondence was already printed, processing centers held that correspondence until November. IRS then generated new correspondence with revised balance due dates, for example, and included leaflets with the correspondence that advised taxpayers to contact IRS if they were unable to meet their tax obligations due to the events of September 11.

Also, as reported by TIGTA in March 2002, IRS, in response to anthrax attacks perpetrated through the mail, “quickly implemented actions to increase security and safety precautions during the filing season.”³ Those

³The Internal Revenue Service Certifies Its Readiness to Process Individual Income Tax Returns in 2002, TIGTA, Reference No. 2002-40-080, Mar. 29, 2002.

actions included providing additional security in areas where mail is handled, changing mail handling procedures, and providing additional training and protective equipment for employees.

IRS's Reorganization Required a Shifting of Computer Files and Affected Processing Performance

As part of its reorganization, IRS shifted computer files to match taxpayer accounts with the operating division responsible for serving the taxpayers. For example, computer files for individual taxpayers were shifted to the computer systems for the Wage and Investment Operating Division (W&I) processing centers and small business accounts were shifted to the computer systems for the centers that now specialize in small business processing and compliance activities. IRS completed this work before the filing season began in spite of the unanticipated challenges associated with the rate reduction credit and terrorist actions.

According to processing officials, IRS's ongoing reorganization affected submission processing's performance in other ways. It contributed to lower overall productivity, in part by changing the predictability of filing patterns. Also, the eight W&I centers no longer process some of the easier business returns and are left with processing the more complicated and time-consuming individual income tax returns, such as those with Schedule Ds (Capital Gains and Losses). Combined with the trend toward increased use of electronic filing by those taxpayers who file simpler tax forms, such as the Form 1040 EZ, IRS officials believe that these changes contributed to slower processing and a corresponding lower productivity rate.

Appendix III: Changes to Third-Party Authorizations in 2002

IRS offers taxpayers a variety of authorizations that allow IRS to disclose or discuss tax return information with a third party. These authorizations range from allowing IRS to discuss the processing of a return, including the status of tax refunds (hereafter referred to as the third-party checkbox authority), to authorizing a third party to receive confidential tax return information. For the 2002 filing season, IRS expanded the third-party checkbox authority to allow the taxpayer to designate any third party, including friends or family members (in 2001, only paid practitioners could be designated). In response to a recommendation in our report on the 2001 filing season,¹ IRS now has a system in place for tracking how use of the third-party checkbox authority facilitated the resolution of issues related to a return's processing. IRS also introduced the Oral Disclosure Consent (ODC) and Oral Tax Information Authorization (OTIA) to enable taxpayers to orally authorize IRS to disclose tax return information to a third party.

Authority to Designate a Third Party Expanded

For the 2002 filing season, IRS expanded the third-party checkbox authority on individual income tax returns (Forms 1040, 1040A, and 1040EZ) to allow taxpayers to designate anyone, including a friend or family member, to talk with IRS to resolve problems (such as math errors and missing information) that come to light during IRS's processing of a return and obtain answers to questions regarding refunds or payments. When this authority was first used during the 2001 filing season, taxpayers were only allowed to authorize paid practitioners to serve as their designees in resolving problems or answering questions. According to IRS, the expansion of this authority to any third party was intended to reach taxpayers who wanted to have a family member or close associate assist with simple tax inquiries.

According to IRS, the third-party checkbox authority is part of IRS's Taxpayer Treatment and Service Improvement Initiative on third-party authorizations. IRS considers this initiative a way to reduce taxpayer burden by reducing the number of notices sent to taxpayers and allowing a designee to talk directly with IRS to resolve issues during a return's processing. During a typical year, IRS sends out about 8 million notices regarding tax return processing issues. According to IRS officials, the Commissioner of Internal Revenue forecasted that, with this authority and

¹U.S. General Accounting Office, *Tax Administration: Assessment of IRS' 2001 Tax Filing Season*, [GAO-02-144](#) (Washington D.C.: Dec. 21, 2001).

other innovations, such as oral consent authorizations, 90 percent of those situations might be resolved through telephone discussions with designees.

According to IRS, taxpayers checked the box on about 32.4 million returns as of October 7, 2002. When IRS first implemented this authority in 2001, it lacked a system for tracking how use of the authorization facilitated the resolution of return processing issues. In response to our recommendation that IRS develop a plan for evaluating the implementation and effectiveness of processing initiatives, IRS implemented computer programming changes that now enable it to know not only how many people used the checkbox option but also how many inquiries were received and responded to by type of return and notice.

IRS officials estimated, based on their tracking, that the 32.4 million returns with marked checkboxes translated to about 4 million fewer pieces of correspondence. In addition, IRS responded to about 4 million inquiries from persons whom taxpayers had identified as their designees using the checkbox authority.

Oral Authorizations Offered

A taxpayer can now orally authorize IRS to disclose tax return information to a third party. Both ODC and OTIA allow a taxpayer to contact IRS and establish disclosure authority for all types of tax accounts. The oral authorizations, however, differ in the range of authorities given to the third party.

The oral authorizations were made possible by the Taxpayer Bill of Rights II,² which removed the requirement that all requests of or disclosures to a third party be in writing. The new disclosure regulations³ authorize IRS employees to accept a taxpayer's verbal request or consent to disclose return information to third parties to assist the taxpayer in resolving account issues. When oral authorizations are used, IRS must verify the taxpayer's identity and the identity of the third party as well as confirm the specific tax matter.

²P.L. 104-168

³Temp. Treas. Reg. § 301.6103(c)-IT (2001).

To establish an ODC, the taxpayer must have received a notice from IRS and have open account issues. The taxpayer may call IRS and designate a third party to resolve issues relative to the information indicated on the notice. Once an ODC has been established, the taxpayer does not have to be physically present or on the telephone when IRS discloses the tax information to the third party nor does the third party need an authorization number. The ODC does not authorize a third party to receive notices or other written taxpayer information. The authority is valid until the tax related issues are resolved. If the taxpayer receives subsequent notices from IRS, he or she must call or visit IRS and establish another ODC even if it is for the same third party and tax matter.

An OTIA allows taxpayers to designate third parties to represent them by telephone or in person and to receive notices or account transcripts on open account issues. The taxpayer does not have to receive a notice from IRS before calling to establish an OTIA. Similar to the ODC, the taxpayer does not have to be physically present or on the telephone when IRS discloses tax information to the third party. However, to confirm their identify, the third party must have an authorization number given by IRS, which must be on file, and the third party must provide this number to the taxpayer. This authority expires upon written request by either the taxpayer or representative.

Appendix III: Changes to Third-Party Authorizations in 2002

Table 5 provides comparative information on the various authorizations discussed in this appendix.

Table 5: Third-Party Authorizations

	Third-party checkbox (2001)	Third-party checkbox (2002)	Oral disclosure consent	Oral tax information authorization
Effective date	Available for the 2001 filing season.	Available for the 2002 filing season.	Available for the 2002 filing season.	Available for the 2002 filing season.
Purpose	Allows a paid practitioner to discuss return processing and refund issues.	Allows a practitioner, friend, or family member to discuss return processing and refund issues.	Allows IRS to disclose information orally, but not written information, to a third party on issues related to a notice.	Allows a third party who has an authorization number given by IRS to receive information orally and some written taxpayer information.
Who can exercise this authority	Taxpayer.	Taxpayer.	Taxpayer.	Taxpayer.
How is authority granted	Taxpayers check a box on individual income tax forms.	Taxpayers check a box on individual income tax forms and some business forms.	Orally.	Orally.
Expiration of authority	April 15 of the year following the year the checkbox election was made, through the life of the first notice, or until the account is resolved.	April 15 of the year following the year the checkbox election was made, through the life of the first notice, or until the account is resolved.	Until the tax related issue is resolved or when a new oral consent is entered on the account.	By written request of taxpayer or representative.
Processing timeframes	4 to 6 weeks.	4 to 6 weeks.	Within minutes.	Within minutes.
Must taxpayer have received a notice	No.	No.	Yes.	No.

Source: IRS data.

Appendix IV: Results of Surveys of Taxpayers and Tax Practitioners Who Prepared Returns on a Computer but Filed on Paper

In 2002, IRS surveyed taxpayers and tax practitioners who prepared their returns on computer but filed on paper. We had recommended such surveys in our report on the 2001 filing season in response to the fact that about 40 million computer-prepared individual income tax returns were filed on paper in 2001.¹ The surveys involved (1) taxpayers who prepared their own tax return on a computer but filed a paper return, (2) taxpayers who used paid practitioners who prepared their returns on computer but filed on paper, and (3) practitioners who prepared returns on a computer but filed on paper. Table 6 shows, for each category of respondent, (1) factors that influenced them not to file electronically and (2) incentives that could encourage them to file electronically.

Table 6: Factors That Influence Preparers of Returns on a Computer Not to File Electronically and Incentives That Could Influence Them to File Electronically

Category of respondent	Factors that influenced them not to file electronically	Incentives that could influence them to file electronically
Taxpayers who prepare their own returns	<ul style="list-style-type: none"> • Cost (51%). • Security and technology concerns (32%). • Like seeing return, signing it, and putting it in the mail (30%). 	<ul style="list-style-type: none"> • Free electronic filing (71%). • Tax credit to cover cost of electronic filing (46%). • Electronic refund in 3 to 5 days (36%). • Ability to file electronically on IRS's Web site (34%).
Taxpayers who used paid practitioners	<ul style="list-style-type: none"> • Taxpayer always filed on paper (34%). • Practitioner did not mention or recommend it (33%). • Taxpayer did not want to pay cost to file electronically (28%). 	<ul style="list-style-type: none"> • Free electronic filing (60%). • Tax credit to cover cost of electronic filing (42%). • Electronic refund in 3 to 5 days (40%).
Paid practitioners	<ul style="list-style-type: none"> • Taxpayers do not request it (66%). • Practitioners do not like the need for a paper signature document (51%). • Software cost is too high (51%). • Electronic filing is too time-consuming (51%). 	<ul style="list-style-type: none"> • IRS paying \$3 for each electronically filed return (63%). • IRS offering free transmission of return (52%). • Electronic refund in 3 to 5 days (51%). • Free software (48%). • Lower transmission costs (47%).

Source: IRS reports on the results of its surveys.

Note: The percentages in this table represent the percent of respondents who cited the factor or incentive as having a strong influence..

¹U.S. General Accounting Office, *Tax Administration: Assessment of IRS' 2001 Tax Filing Season*, [GAO-02-144](#) (Washington D.C.: Dec. 21, 2001).

Appendix V: IRS Received Fewer E-Mail Questions Via Its Web Site and Did a Worse Job Responding to the Questions

One aspect of IRS's Web site where available data indicated worse performance in 2002 than in 2001 was the feature that allows taxpayers to ask IRS tax law and procedural questions via E-mail. For the 2002 filing season, IRS received fewer E-mail questions and did a worse job responding to those questions than in 2001. Also, the E-mail function of the site received mixed reviews by users who responded to the customer satisfaction survey.

As of May 31, 2002, IRS received about 109,000 E-mail questions compared with about 160,000 for the same time period in 2001—a 32-percent decrease. IRS officials we talked with did not know why the number of E-mail questions had decreased but speculated that redesign of the Web site might have made it difficult for taxpayers to locate the link for submitting questions. As noted earlier, the link for submitting questions was accessible not through the “Contact Us” part of the site but through the “Help” part of the site.

IRS's goal is to respond to E-mail questions within 2 business days. However, according to IRS data, IRS took 2.4 business days on average to respond to taxpayer's E-mail questions in 2002, compared with 0.8 business days in 2001. The IRS data indicated that timeliness was a problem in January and February (4.2 and 2.4 business days, respectively) but improved substantially in March and April (1.2 and 0.8 business days, respectively). According to responsible IRS officials, the increase in time to respond to E-mail questions was caused by several factors:

- The most significant factor was a decision to concentrate on E-mail questions received in the work period just before the start of the 2002 filing season.
- IRS consolidated the responsibility for responding to all E-mail questions in one site, and there was an inadequate alignment of employees' skills with the new workload.
- IRS believed that far more complex questions were received in 2002 than in 2001 because the expanded “frequently asked questions” section of the Web site was being used by taxpayers to get answers to more common, less complex questions.

IRS informed us that, for the 2003 filing season, it will be conducting more training and adding another site to answer E-mail questions. The site being added answered E-mail questions in 2001.

In 2002, IRS did not meet its 78-percent accuracy goal and, on a percentage basis, answered fewer questions accurately, despite receiving 32 percent

Appendix V: IRS Received Fewer E-Mail Questions Via Its Web Site and Did a Worse Job Responding to the Questions

fewer E-mail questions than in 2001. IRS data for January 1 to April 20, 2002, showed that IRS responded accurately to 76 percent of the E-mail questions in 2002. That compares with a 78-percent accuracy rate for a similar time frame in 2001. Some of the same factors cited as possible reasons for the timeliness problems (i.e., an inadequate match of employee skills with workload and the receipt of more complex questions) could also help explain the decrease in accuracy.

IRS provides all E-mail customers an opportunity to respond to a customer satisfaction survey, and about 2,200 did so between January 1 and April 30, 2002. The customers who responded to the survey in 2002 provided mixed reviews of the E-mail service.

- 91 percent of the respondents said that they were satisfied with the time it took to get a response, compared with 96 percent in 2001—a decline that may reflect the increase in average response times discussed earlier.
- 92 percent of the respondents said that they would use the E-mail service again, compared with 91 percent in 2001.
- 79 percent of the respondents said that IRS's response answered their question, compared with 75 percent in 2001.

Appendix VI: Comments from the Internal Revenue Service



COMMISSIONER

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

December 16, 2002

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

Dear Mr. White:

I appreciate your recognition of the many challenges we successfully faced during the planning and execution of the 2002 tax filing season. Our Filing Season Readiness process served us well, especially in handling unanticipated challenges. As you reported, we have greatly expanded electronic services to taxpayers and the quality and level of service our field assistance centers provide.

Your report referenced the Treasury Inspector General for Tax Administration (TIGTA) reviews on Field Assistance Quality. Using the TIGTA accuracy rates is inappropriate. In the Fiscal Year (FY) 2001 and 2002 results, the TIGTA included referrals to publications in computing the accuracy rate. I do not agree that referring taxpayers to IRS tax publications is the same as providing incorrect answers to questions. While we do not want employees to improperly refer questions, those referrals should not be counted as incorrect answers and should be excluded from the calculation. The use of TIGTA's calculation of 50 percent is not a true reflection of our performance. By excluding these referrals as errors, the true cumulative accuracy rate is 66 percent through June 2002. We do agree, however, that we still must improve.

Some of our other significant improvements this filing season include:

Customer Accounts Management

- Accuracy of toll-free telephone service tax law and tax account answers improved substantially. Through October 31, 2002, the quality of tax law answers improved 8 percentage points to 81 percent. The quality of tax account answers improved 7 percentage points from the prior year to 74 percent. These quality measures include adherence to procedures as well as the accuracy of the response. When measured for accuracy alone, the tax law correct response rate was over 84 percent and the account correct response rate was over 90 percent.

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- We exceeded our toll-free telephone Customer Service Representative (CSR) Level of Service (LOS) goal of 71.5 percent for 9 of the 15 weeks in the filing season. We were less than 2.7 percentage points below our goal in three of the missed weeks.
- Our Submission Processing Centers processed almost 131 million returns and generated almost 196 billion in tax refunds, while successfully dealing with the additional workload generated by the Rate Reduction Credit.

Taxpayer Face to Face Services

- We have taken a number of steps to improve the accuracy of assistance in our Taxpayer Assistance Centers (TAC), such as providing standardized services and better training, and refining the process for referring complex tax law questions that are outside the scope of services provided by Field Assistance employees.
- To address employee training needs, we require all TAC technical employees to complete 1 hour of uninterrupted self-directed learning each week.
- Beginning in July 2002, managers interviewed taxpayers as they left the TAC to determine the level of service they received. Managers also conducted anonymous "shopping visits" at TACs other than their own to determine the scope of the accuracy problem. We used the results of these visits and similar reviews conducted by TIGTA to identify error trends and training needs to improve quality.
- During FY 2003 Continuing Professional Education (CPE) classes, employees will receive job aids to guide them through the publication method. The publication method is a technique employees use to "walk" a taxpayer through a publication as they respond to a tax law question. It helps employees ask appropriate probing questions so they can correctly answer customers' questions.
- Field Assistance is installing a networked queuing management system (Q-Matic) in 28 TACs in California. This will enable IRS to test Q-Matic networking and summary reporting capabilities. These sites are scheduled to be operational in January 2003.

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Electronic Filing and Internet Services

- As of October 31, 2002, nearly 46.9 million taxpayers filed electronically, surpassing the 40.2 million for the prior year. Nearly 105,000 electronic return originators, 15,000 more than last year, participated in e-file resulting in more accurate and faster refunds.
- Home computer e-filing increased as taxpayers filed more than 9.4 million returns from their home computers, a 38 percent increase over last year.
- Electronic payments are up. Taxpayers made over 768,000 e-payments, an increase of 8.5 percent over the same time last year. This includes 313,385 credit card payments.
- More than 24.8 million taxpayers signed their returns electronically by using one of the two Personal Identification Number options.
- The IRS website, www.irs.gov, is one of the most used government sites. During the tax season we had 3.1 billion hits, a 15 percent increase from last year. In addition, the number of files downloaded last year topped 437 million, an increase from 317 million the year before.
- For the FY 2003 filing season, we are taking steps to improve service by encouraging Internet filing with free tax preparation software, adding seven new e-file formats, and increasing services to electronic return preparers.

My responses to your recommendations for Executive Action follow:

Recommendation:

Reinstate a telephone assistance caller wait time measure, such as assistor response level or average speed of answer, to assess this important aspect of the customer experience.

Response:

We agree that measuring customer wait time is an important indicator of the service we are providing to our customers, and we have consistently tracked and used this information to manage telephone operations. Although we removed this as a Balanced Measure in FY 2002, we recognize that speed of service is important to our customers. We continue to closely monitor and report our wait time performance to all of our stakeholders. Wait time is a primary factor for real time call management and call

An IRS official told us that the figures cited for Web site hits and downloads are for the full fiscal year (October 1 through September 30).

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routing actions taken by the Joint Operation Center. Minimizing customer wait time is also a key consideration when we plan workload and schedule staffing. The fact that we eliminated wait time measures from the Balanced Measures has not diminished its importance to us. We agree with your recommendation and will begin refining an appropriate wait time measure for our FY 2004 –2005 Strategy and Program Plan.

Recommendation

Revise biweekly wait time reports to show the numbers and percentages of customers in each of the wait time intervals tracked by Q-Matic.

Response

Wait time at TACs is not currently a measure because we concluded that this measure tended to adversely affect the thoroughness and quality of answers. Unlike toll-free telephone operations, where wait time is a function of call management and systemic call routing, our past experiences in the walk-in environment have shown that employee reaction to timeliness measures tend to increase the likelihood of inaccurate or incomplete answers. Our current focus is devoted to improving the accuracy of answers to tax law questions and the quality of other work.

Recommendation

Explore the feasibility of including all walk-in sites, rather than just sites equipped with Q-Matic, for the purpose of conducting sample visits/reviews of the accuracy of account assistance.

Response

We worked with Statistics of Income (SOI) to develop a national statistically reliable sample of accounts work within the TACs. We then reviewed account accuracy in the largest TACs equipped with Q-Matic as a means of developing goals. These baseline goals will be used to measure account accuracy in all TACs.

For FY 2003, we worked with SOI and developed an Area statistically reliable sample of accounts work. Large, medium and small TACs will be sampled with every workgroup within Field Assistance being sampled during the year. We will assess accounts accuracy in conjunction with the tax law accuracy review. Our Quality Assurance Team will review a representative sample of accounts work in the TAC being reviewed, and account accuracy will be based on whether all of the taxpayer's concerns were resolved.

Recommendation

Ensure that Field Assistance officials do a comprehensive evaluation of resource requirements (sites and staffing) after clarifying the extent and timing of (1) expected field assistance and compliance workloads, and (2) expected walk-in site changes (additions and closures).

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Response

We are doing a workload and staffing study that will provide detailed information on the location of work and where we should provide service and staffing. This study will include inventory driven work, such as office examinations and collection queue work, and the more traditional demand driven work such as accounts and notices. During the design stage for this program, we included new assistance sites in our projections. However, we now project shortages in Field Assistance staffing for FY 2004. As a result, we may have to reassess the number and location of TAC sites.

Again, I appreciate your observations and recommendations. If you have questions or comments, please call Floyd Williams, Director, Legislative Affairs, at (202) 622-3720.

Sincerely,



Bob Wenzel
Acting Commissioner

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

James White (202) 512-9110
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Acknowledgments

In addition to those named above, Bob Arcenia, Heather Bothwell, Grace Coleman, Ron Heisterkamp, Ronald W. Jones, John Lesser, Tina Smith, and Joanna Stamatiades made key contributions to this report.

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