

**Information Is Needed to Determine the  
Effect the Wage and Investment Division  
Research Program Has on Improving  
Customer Service and Voluntary Compliance**

**April 2004**

**Reference Number: 2004-40-088**

**This report has cleared the Treasury Inspector General For Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

April 14, 2004

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance (Audit # 200340006)

This report presents the results of our review of the Wage and Investment (W&I) Division Research Program. The overall objective of this review was to determine whether the W&I Division Research Program's purpose, strategies, plans, and management policies are designed to ensure that the Research Program selects the most productive research projects in an effort to assist the Internal Revenue Service (IRS) in furthering its goals of improving customer service and voluntary compliance. We conducted this review as a part of the Treasury Inspector General for Tax Administration's Fiscal Year (FY) 2003 discretionary audit coverage concerning reliability of information.

The W&I Division began operation in October 2000 and serves approximately 122 million taxpayers, who file over 94 million tax returns. W&I Division taxpayers are highly compliant with tax filing requirements and typically file simple tax returns. The W&I Division Research Program's mission is to provide timely, top-quality research and analysis in support of the W&I Division's mission and goals.<sup>1</sup> Having its own research function creates a more customer-driven operation that involves and communicates with the various W&I Division functions throughout the research process, thereby improving business results, employee satisfaction, and customer service. In FY 2003, the W&I Division Research Program completed 344 projects.

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<sup>1</sup> The W&I Division's mission and goals are to provide customers top-quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all.

The Research Program has a comprehensive annual strategic planning process that is customer-driven and includes annual goals for producing timely, relevant, accurate, and useful products. While the annual planning and related goals will help ensure and gauge the quality of the Research Program, more can be done to ensure the Research Program selects the most productive research projects. Specifically,

- Improvements are needed to ensure annual goals are being met. Current guidelines neither require assurance that accuracy reviews of project results have been performed nor include an effective process to obtain feedback from the customers to determine the usefulness or value of the final research projects.
- Long-term performance goals and measures are needed. The IRS has not developed results-oriented, long-term goals and measures for the Research Program because it does not have a process to monitor and measure progress on improving customer service and voluntary compliance for W&I Division taxpayers. However, Research Program management is working toward developing these goals and measures.
- A centralized management information system is needed. The Research Program has not fully implemented a centralized management information system to track and monitor its projects. It is working toward implementing a new centralized system; however, the new system does not allow management to easily monitor and track project costs to assess the cost-effectiveness of the Research Program.

We recommended the W&I Division Commissioner ensure the Research Program guidelines are revised to require documentation supporting the performance of an accuracy review or explaining why a review was not warranted, and develop an effective process to measure the usefulness of the research products. We also recommended the W&I Division Commissioner ensure long-term goals and a measurement process are developed to monitor the effect the Research Program has on improving tax administration, and implement a centralized management information system to enable the efficient tracking and monitoring of all aspects of a research project.

Management's Response: IRS management agreed with all of our recommendations and is taking corrective action. Specifically, the W&I Division Research Program will revise guidance to require maintaining documentation supporting the performance of accuracy reviews, establish a system to assess the usefulness of its research products, establish long-term goals and measures, and implement the Microsoft Project 2002<sup>®</sup> system to centrally manage resources and projects. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**Information Is Needed to Determine the Effect the Wage and Investment Division  
Research Program Has on Improving Customer Service and Voluntary Compliance**

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## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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### Background

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In 1998, the Congress passed the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998,<sup>1</sup> which included a directive for the IRS to reorganize its operations. In response, the IRS reorganized into four operating divisions<sup>2</sup> based on taxpayer needs. The Wage and Investment (W&I) Division began operation in October 2000 and serves approximately 122 million taxpayers, who file over 94 million tax returns. W&I Division taxpayers are highly compliant with tax filing requirements and typically file simple tax returns.<sup>3</sup> Many of the tax problems faced by W&I Division taxpayers have to do with a misunderstanding of their tax obligations due to education and communication issues.

As part of the IRS' reorganization, a separate research function was placed in each operating division to create a more customer-driven research operation that would involve and communicate with the customer throughout the research process. The goal of placing a separate research function in each operating division was to improve business results, employee satisfaction, and customer service.

The W&I Division Research Program is headquartered in Atlanta, Georgia, and has research field groups located in Atlanta, Georgia; Boston, Massachusetts; Indianapolis, Indiana; Jacksonville, Florida; Los Angeles, California; and St. Louis, Missouri, with a total of 77 field personnel. The personnel in the field groups include mostly technical analysts, statisticians, and support staff. The operating budget in Fiscal Year (FY) 2003 was approximately \$9 million, and the budget for FY 2004 is approximately \$10 million.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> The four operating divisions include the Large and Mid-Size Business, Small Business/Self-Employed, Tax Exempt and Government Entities, and Wage and Investment Divisions.

<sup>3</sup> These are taxpayers filing a U.S. Individual Income Tax Return (Form 1040) with no international activity and without the following schedules: Employee Business Expenses (Form 2106), Profit or Loss From Business (Sole Proprietorship) (Schedule C), Profit or Loss From Farming (Schedule F), or Supplemental Income and Loss (Schedule E).

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Research Program customers include the Customer Assistance, Relationships, and Education; Compliance; and Customer Account Services functions. The Customer Assistance, Relationships, and Education function is responsible for educating W&I Division taxpayers and assisting them in filing their tax returns. The Compliance function is responsible for ensuring taxpayers fulfill their tax obligations through accurate and consistent application of the tax law. The Customer Account Services function is responsible for assisting taxpayers with filing their tax returns, receiving their refunds, and resolving their tax-related issues.

The planned research projects are distributed among the various Research Program field groups, with each field group assigned to support specific W&I Division customers. The projects are categorized by the estimated time to complete and the significance of the project. The time to complete a project is usually linked with the significance and potential effect of the project. The primary categories are those estimated for completion within 30 days and those estimated for completion in over 30 days. Research Program management stated that of the 344 projects closed in FY 2003, 103 (30 percent) took over 30 days to complete with the remaining 241 (70 percent) being completed within 30 days.

This review was performed at the W&I Division Research Program Headquarters and field office in Atlanta, Georgia, and the Boston, Massachusetts, field office. The remaining field offices<sup>4</sup> participated in the audit through teleconferencing. Audit work was performed during the period June through December 2003. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>4</sup> Indianapolis, Indiana; Jacksonville, Florida; Los Angeles, California; and St. Louis, Missouri.

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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### **The Annual Strategic Planning Process Has Established Balanced Measures and Performance Levels**

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The Research Program has a comprehensive annual strategic planning process that is customer-driven and includes annual goals for producing timely, relevant, accurate, and useful products. In addition, the mission of the Research Program—to provide timely, top-quality research and analysis—supports the W&I Division’s mission and goals to provide customers top-quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax laws with integrity and fairness to all.

The Research Program’s strategic planning process is customer-driven, and the projects selected for inclusion in the annual plan are the result of extensive coordination with those customers. The chief of each field group serves as a liaison between the Research Program and the W&I Division-assigned customer. As liaison, the chief meets throughout the year with the customers’ contacts to discuss their needs. This supports the development of the annual strategic plan and allows the Research Program to shift resources if unexpected priorities arise for the customer during the year.

To ensure the projects selected support W&I Division goals and initiatives, the Research Program links each of its planned research projects with a specific W&I Division strategy. Ultimately, the projects selected are intended to provide meaningful information to W&I Division decision makers as they develop their near- and long-term strategies, plans, and programs to perform their functional responsibilities in tax administration.

Once the annual plan is developed and work on the projects begins, the Research Program compiles data on a monthly basis to measure its performance toward meeting established balanced measures. These balanced measures are the same measures required for all IRS operations and include customer satisfaction, employee satisfaction, and business results (e.g., the number of projects closed, resources used, or quality of reports and plans).

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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### **Improvements Are Needed to Ensure Annual Goals Are Being Met**

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The Research Program has established short-term annual goals that include producing timely, relevant, accurate, and useful products. These annual goals will help gauge the quality of the Research Program. In addition, management has a method for ensuring the goals of producing timely and relevant products are being met. For example, the Research Program established targets for the number of days to complete the various projects and monitors these completion time periods on a monthly basis. To ensure projects are relevant, the Research Program works extensively with the customer to select projects. However, current guidelines do not require assurance that accuracy reviews of project results have been performed or include an effective process to obtain feedback from the customers to determine the usefulness or value of the final research projects.

#### **Documentation is not required supporting the accuracy reviews of research results**

Program guidelines state that the Research Program chiefs have the primary responsibility for ensuring the quality of work completed in their groups. These guidelines require each chief to ensure the accuracy of research results at the field group level. For those projects that include a quantitative analysis, the chief is to ensure the accuracy of the quantitative analysis has been corroborated by independent replication or other appropriate method.

Although guidelines establish responsibility for the accuracy of research results, the guidelines do not require documentation to be maintained to support the performance of these accuracy reviews. However, *Standards for Internal Control in the Federal Government*<sup>5</sup> require the appropriate documentation of transactions and internal controls. Specific documentation should be maintained in the research project file supporting the validation of the results of the accuracy reviews.

We did not identify any instances in which customers of the Research Program raised concerns about the accuracy of the research results provided to them. However, without documentation to support that an accuracy review was

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<sup>5</sup> *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, dated November 1999).

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performed, Research Program management cannot provide assurance that the information the IRS is relying on is accurate.

### **Current guidelines do not include an effective process to obtain customer feedback on the usefulness of research results**

Research Program guidelines do not require the Research Program chiefs to regularly follow up with customers to determine whether research results were useful. During the planning phase of a project, the Research Program chiefs hold discussions with the customers to determine how the customers plan to use the research information. However, management has not developed a process to determine if the research results provided the intended benefit(s).

Research Program management recognizes the importance of determining the effect of the research results on their customers' programs and has attempted to obtain this information. In April and July of 2003, management surveyed their customers to identify the effect, if any, of research results. However, Research Program management stated that the responses received from their customers were often "soft and vague" and did not enable management to clearly identify the effect of the results. In the future, the Research Program Director will follow up with customers about 6 months after the research work is completed to discuss the usefulness of the information that was provided.

We reported a similar issue in May 2000.<sup>6</sup> The reported issue related to the IRS' centralized Research Program. That Program could not quantify its value to tax administration and could not accurately measure its cost-effectiveness or the effect of the information it provided. We recommended the IRS develop a process to identify and measure actual research outcomes and their related costs. IRS management agreed with the recommendation and stated that they would rely on the new strategic planning and budget process in each operating division to link research results with strategic measures.

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<sup>6</sup> *The Internal Revenue Service Needs to Improve Control of Its Compliance Research Program* (Reference Number 2000-40-068, dated May 2000).

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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Federal Government agencies are expected to identify high-quality outcome measures and accurately monitor performance of programs. The Government Performance and Results Act of 1993 (GPRA)<sup>7</sup> and related Office of Management and Budget circulars require each Federal Government agency, as part of the strategic planning process, to develop outcome-related goals and objectives for the major functions and operations of the agency.

Without an effective process to identify and measure the outcome of its research, the Research Program will be unable to measure its progress toward meeting its annual goal of providing useful research results.

### Recommendations

The Commissioner, W&I Division, should:

1. Revise Research Program guidelines to require that documentation be maintained supporting the performance of an accuracy review for all research projects or explaining why a review was not warranted.

Management's Response: Research Program guidelines will be revised to include guidance to maintain documentation supporting the performance of accuracy reviews.

2. Develop an effective process to determine the usefulness of research products and include the process in the Research Program guidelines.

Management's Response: The W&I Division Research Program will establish a system to assess the usefulness of its research products.

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### Long-Term Performance Goals and Measures Are Needed

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The IRS has not developed results-oriented, long-term goals and measures to determine the effectiveness of the Research Program because it does not have a process to monitor and measure progress toward improving customer service and voluntary compliance for W&I Division taxpayers. However, Research Program management is working toward developing these goals and measures.

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<sup>7</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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For example, Research Program management has established the Strategic Forecasting and Analysis (SFA) research field group. The SFA group's mission is to analyze trends and forecasts to assist W&I Division leaders in addressing long-term challenges expected to affect their ability to provide products and services to W&I Division taxpayers of the future. The SFA group's mission differs from the mission of the other Research Program field groups in that its mission focuses on future challenges while the other field groups focus on current challenges.

Since its inception, the SFA group has produced over 75 reports that reflect a wide range of demographic, economic, and technological issues. Management stated that they require the various Research Program chiefs to discuss these reports with their assigned customers, if applicable. However, a process has not been developed confirming which customers have received specific SFA group reports or how the customers might have used the information. After we raised this issue to Research Program management, they emailed their customers outlining the various SFA group projects and stating which operational priority each project addresses. This information was provided to assist W&I Division management in their strategic planning efforts.

We recognize the difficulty in measuring the long-term effects of the Research Program, especially in quantifiable terms. However, management could use the SFA group project results to identify trends to be considered in the development of long-term goals and measures.

Without established long-term goals and measures that monitor the effect the Research Program has on improving tax administration, the ability of IRS management and the Congress to make informed business decisions related to the Research Program is hampered. Knowing the effect the Research Program has on improving customer service and voluntary compliance will help assure the Congress of the value the Research Program provides for the resources it uses.

In addition, without adequate long-term goals and measures, the Research Program will be unable to comply with the *The President's Management Agenda* relating to improving

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budget and performance integration, which requires Federal Government agencies to identify high-quality outcome measures and accurately monitor program performance.

### Recommendation

The Commissioner, W&I Division, should:

3. Develop long-term goals and a measurement process to enable management to monitor the effect the Research Program has on improving tax administration.

Management's Response: Long-term goals and measures will be established at the start of the FY 2007 Strategic Planning process for the W&I Division Research Program.

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### A Centralized Management Information System Is Needed

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The Research Program has not fully implemented a centralized management information system (MIS) to track and monitor its projects. Instead, it has been using a modified version of an existing system that, in February 2002, the W&I Division Performance Improvement Team<sup>8</sup> determined provided incomplete and inaccurate information.

The W&I Division Performance Improvement Team determined that the Research Program's MIS tracked only projects that typically took over 30 days to complete. In FY 2003, this would have excluded 94 percent of the Program's projects. In addition, project status definitions varied among groups, project numbers were not descriptive, and each research group manually tracked its own time spent on projects.

In response to the W&I Division Performance Improvement Team findings, Research Program management decided to implement a new centralized MIS by October 2002. In the interim, they made changes to the current MIS, which is still being used. However, the current process is inefficient, repetitive, and labor-intensive. It is not centralized and

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<sup>8</sup> The W&I Division Performance Improvement Team provides independent reviews of processes and procedures for vital programs that directly affect the efficiency and effectiveness of operations within the W&I Division. Results are reported directly to the Director, Strategy and Finance.

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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requires each of the seven Research Program chiefs to maintain separate systems of management controls for each group.

In addition, both the current system and the new system do not allow management to easily monitor and track project costs to assess the cost-effectiveness of the Research Program. The cost of a project is estimated during early discussions with the customer, but the Research Program does not regularly or easily collect actual project cost information. As a result, the Research Program cannot easily analyze the costs of research projects over time to identify the cost-effectiveness of the Research Program and determine where to make improvements.

The new MIS, planned to have been implemented by October 2002, would consist of Microsoft Project 2000<sup>®</sup> and its companion product, Project Central<sup>®</sup>. These Microsoft products are standard tools for project planning, monitoring, and reporting. The Microsoft Project 2000<sup>®</sup> software is designed to determine completion dates of projects based on the start date, major milestones, and staff availability. Project Central<sup>®</sup> is a web-based application that allows project managers and project team members to communicate about the assignment and status of project tasks. Project Central<sup>®</sup> also provides for division-wide reporting of project information.

A centralized MIS will provide the Research Program a uniform way to track information. Research Program guidelines state that a uniform approach to project management and the use of a standard project management tool will also enable the Program to quantify progress on the balanced measures and manage the priorities of the Research Program. In addition, standard project management methods will support the Research Program's future development of organizational resources and enable the Program to:

- Better align researchers' skills to projects.
- Identify organizational needs for resources and skill enhancements.

As of December 2003, the centralized MIS had not been fully implemented. The National Treasury Employees

## **Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance**

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Union raised concerns about the Research Program tracking employee direct time. In addition, Research Program management had raised concerns about having to use two different systems to meet their needs.

We learned from the Small Business/Self-Employed Division Research Program employees, who have been using Microsoft Project 2000<sup>®</sup> and its companion Project Central<sup>®</sup> since October 2002, that the software is not designed to track employee time for payroll purposes and that the software does not have the ability to capture narratives, functions the Research Program desires. However, Research Program management has recently accepted the limitations of the software and plans to move forward with its implementation.

Neither the current system nor the new system will provide all the tools necessary to manage the Research Program. Until management has implemented a new MIS to track the projects and their related costs, the Research Program will be unable to easily monitor and track its progress toward managing its priorities and meeting its goals.

### **Recommendation**

The Commissioner, W&I Division, should:

4. Ensure a centralized MIS is implemented to enable the efficient tracking and monitoring of all aspects of a research project.

Management's Response: The W&I Division Research Program will implement the Microsoft Project 2002<sup>®</sup> system. This system will provide tools to centrally manage resources and projects, to provide a central repository for project documentation, and to consistently report project information across research groups. Completion of this action is contingent on the completion of a systems modification by Microsoft Corporation.

**Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to determine whether the Wage and Investment (W&I) Division Research Program's purpose, strategies, plans, and management policies are designed to ensure the Research Program selects the most productive research projects in an effort to assist the Internal Revenue Service (IRS) in furthering its goals of improving customer service and voluntary compliance. To accomplish the objective, we:

- I. Determined whether the mission of the Research Program is aligned with the missions of the W&I Division and the IRS.
  - A. Researched the W&I Division and Research Program web sites to determine whether the mission, goals, and objectives of the Research Program promote improving customer service and increasing voluntary compliance.
  - B. Interviewed the Research Program Director to determine whether the mission and purpose of the Research Program support improving customer service and increasing voluntary compliance.
- II. Determined whether the Research Program has an adequate strategic planning process, including the establishment of valid annual and long-term goals, and ensures the goals are incorporated in the project selection process. We determined whether:
  - A. The Research Program has specific long-term performance goals that focus on outcomes and reflect its purpose.
  - B. The Research Program has a number of annual performance goals that demonstrate progress toward achieving the long-term goals.
  - C. The Research Program chiefs support program planning efforts by committing to the annual and long-term goals of the Research Program.
  - D. The Research Program collaborates and coordinates effectively with related programs (e.g., the Small Business/Self-Employed Division) that share similar goals and objectives.
  - E. The Research Program has independent and quality evaluations to support Research Program improvements and evaluate effectiveness.
- III. Determined whether the Research Program has sufficient data to monitor and control the Research Program to ensure it meets its goals and strategies.
  - A. Interviewed Research Program management to determine how the Research Program is monitored.

**Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance**

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- B. Identified which reports are available for management oversight and monitoring of the Research Program.
  - C. Interviewed Research Program management to determine what criteria are used when formulating project selection.
  - D. Determined how often the Research Program collects timely and credible performance information and uses it to manage the Research Program and improve performance.
  - E. Reviewed Research Program guidelines and interviewed employees to understand the project selection process and determine if it agrees with the strategies and goals of the Program.
- IV. Determined whether the Research Program has sufficient cost information and data to determine if the Research Program is cost-effective.
- A. Determined the projected expenditures for the W&I Division to administer the Research Program in Fiscal Year 2004.
  - B. Determined whether the costs to perform each project are collected and compared to the yield.
  - C. Determined whether cost data are compared over time to identify the effectiveness of the Research Program and where to make improvements.

**Major Contributors to This Report**

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**Information Is Needed to Determine the Effect the Wage and Investment Division  
Research Program Has on Improving Customer Service and Voluntary Compliance**

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**Appendix III**

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Strategy and Finance SE:W:S  
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Appendix IV

Management's Response to the Draft Report



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

RECEIVED  
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MAR 31 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Henry O. Lamar, Jr. *Henry O. Lamar, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – Information Is Needed to Determine the  
Effect the Wage and Investment Division Research Program  
Has on Improving Customer Service and Voluntary Compliance  
(Audit # 200340006)

I appreciate your efforts to assess the effect the Wage and Investment (W&I) Division Research Program has on improving customer service and voluntary compliance. I am pleased your report recognized our comprehensive annual strategic planning process is customer-driven and includes annual goals for producing timely, relevant, accurate, and useful products.

The mission of W&I Research is to provide timely and top quality research and analysis in support of the W&I mission and goals. Our research provides meaningful information to internal W&I decision-makers as they develop near and long-term strategies, plans, and programs to perform their functional responsibilities in tax administration. Some examples are:

- Identification of specific geographic areas to address Stakeholder, Partnerships, Education, and Communication (SPEC) business objectives;
- Targeting specific marketing areas;
- Establishing examination selection criteria; and
- Identifying and establishing language priorities to better assist taxpayers with limited English proficiency.

W&I Research links each of its planned research projects with a specific W&I Division strategy to ensure the selected project supports W&I Division goals and initiatives. While W&I Research remains committed to providing research to address tactical issues, we have increased focus on strategic research so we can better serve our customers' need for information to establish priorities to address anticipated trends, issues, and problems. The primary function of the Strategic Forecasting and Analysis (SF&A) group within W&I Research is to look 5 to 10 years into the future in identifying

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trends and emerging areas impacting future strategies and programs of tax administration. This research is a key component of our annual Strategic Plan. Accordingly, the Fiscal Year 2004 Research Plan proposed research projects that address both operational (immediate) and strategic (anticipatory) needs of our customers.

Your report noted that our program guidelines require the Research Chiefs ensure the accuracy of our research products. While our guidelines address the level of quality review for all our various products, we agree with your recommendation that the guidelines should also require documentation be maintained supporting the performance of accuracy reviews. Therefore, we will add this requirement to our guidelines by October 2004.

We agree with your observation on the importance of following up with customers to identify the effect of the research results. During our review process, we previously identified the need for a formal customer follow-up process. As a result, we are establishing customer follow-up procedures designed to gather their feedback on their satisfaction and the usefulness of research results. These procedures will be used to follow-up with our customers within six months after the research work is completed. This process will be fully implemented by October 2004.

While W&I Research has established short-term goals, your report noted the IRS has not developed results-oriented long-term goals and measures to determine the effectiveness of the Research Program because it does not have a process to monitor and measure progress towards improving customer service and voluntary compliance for W&I taxpayers. W&I Research long-term goals and measures will be established at the start of the Fiscal Year 2007 Strategic Planning process. Accordingly, in developing our long-term goals, we will include this subject in discussions with our customers and solicit customer suggestions about how best to measure the long-term effectiveness of actions implemented (or not implemented) as a result of W&I Research's products.

Also as noted in your report, we have not yet fully implemented a centralized Management Information System (MIS) to track and monitor our research projects. However, as part of our review process, we had identified the need for a centralized MIS, and in an effort to meet our goal, joined the research community in selecting Microsoft Project Professional 2002 project management system to provide project management capability. This system will provide W&I Research with tools to centrally manage resources and projects, provide a central repository for project documentation, and to consistently report project information across research groups. Users will be able to access a central database via a web-based browser to view information on resource usage, milestone progression, and other performance characteristics. Upon completion of a research project, the system will also create a history for future

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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reference. In the interim, we supplemented the existing system, Microsoft Project 2000, with processes to ensure internal management controls were in place to track and monitor projects. For example, we compile data on a monthly basis to measure our performance toward meeting our balanced measures.

I appreciate your review of our Research internal management controls and value your perspective. If you have any questions, please call me or Howard "Mac" McMillan, Director, W&I Research, at (404) 338-8786.

Attachment

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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### Attachment

#### **Recommendation 1**

Revise Research Program guidelines to require that documentation be maintained supporting the performance of an accuracy review for all research projects or explaining why a review was not warranted.

#### **Corrective Action**

We agree with this recommendation. The W&I Research Project Guidelines will be revised to include guidance to maintain documentation supporting the performance of accuracy reviews by October 2004.

#### **Implementation Date**

October 15, 2004

#### **Responsible Official**

Director, W&I Research

#### **Corrective Action Monitoring Plan**

The Director, W&I Research will monitor corrective actions and report to the Director, Strategy & Finance when revisions are completed.

#### **Recommendation 2**

Develop an effective process to determine the usefulness of research products and include the process in the Research Program guidelines.

#### **Corrective Action**

We agree with this recommendation. We previously identified the need for a formal customer follow up process. The Director, W&I Research will establish a system to assess the usefulness of our research products by October 2004.

#### **Implementation Date**

October 15, 2004

## Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance

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### **Responsible Official**

Director, W&I Research

### **Corrective Action Monitoring Plan**

The Director, W&I Research will monitor corrective actions and report to the Director Strategy & Finance when revisions are completed.

### **Recommendation 3**

Develop long-term goals and measures to enable management to monitor the effect the Research Program has on improving tax administration.

### **Corrective Action**

We agree with this recommendation. While W&I Research has established short-term goals, your report noted that the IRS has not developed results-oriented long-term goals and measures to determine the effectiveness of the Research Program because it does not have a process to monitor and measure progress towards improving customer service and voluntary compliance for W&I Division taxpayers. W&I Research long-term goals and measures will be established at the start of the Fiscal Year 2007 Strategic Planning process.

### **Implementation Date**

October 15, 2006

### **Responsible Official**

Director, W&I Research

### **Corrective Action Monitoring Plan**

The Director, W&I Research will monitor corrective actions and report to the Director, Strategy & Finance when revisions are completed.

### **Recommendation 4**

Ensure that a centralized MIS is implemented to enable the efficient tracking and monitoring of all aspects of a research project.

## **Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance**

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### **Corrective Action**

We agree with this recommendation. We previously identified the need for a centralized MIS and will implement the Microsoft Project 2002 system. This system will provide W&I Research with tools to centrally manage resources and projects, provide a central repository for project documentation, and to consistently report project information across research groups. Completion of this action is contingent on the completion of a systems modification by Microsoft Corporation, coordinated through Modernization, Information, Technology & Security (MITS).

### **Implementation Date**

October 15, 2004

### **Responsible Official**

Director, W&I Research

### **Corrective Action Monitoring Plan**

The Director, W&I Research will monitor corrective actions and report to the Director, Strategy & Finance when revisions are completed.