

**The Wage and Investment Division's
Discretionary Examination Program
Effectively Monitored Performance
Data to Meet Annual Program Goals**

October 2004

Reference Number: 2005-40-007

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

October 29, 2004

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *Margaret E. Beys*
(for) Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Wage and Investment Division's
Discretionary Examination Program Effectively Monitored
Performance Data to Meet Annual Program Goals
(Audit # 200440009)

This report presents the results of our review of the Wage and Investment (W&I) Division Discretionary Examination Program. The overall objective of this review was to determine whether the Program is effectively managed to help ensure it meets its intended goals, including the evaluation of Program performance through adequate data collection, evaluation of Program deficiencies, and Program manager accountability.

To assess the Discretionary Examination Program, we used the Program Assessment Rating Tool (PART) criteria created by the Office of Management and Budget to rate Federal Government programs. The PART is a systematic method of assessing the performance of program activities across the Federal Government. The PART is a diagnostic tool with the main objectives being to improve program performance and link performance to budget decisions.

In summary, Discretionary Examination Program managers effectively used management information data to monitor annual Program goals and took corrective actions when appropriate. Our analysis of national- and campus-level¹ management information reports confirmed that the Discretionary Examination Program was on schedule to meet its Fiscal Year 2004 goals. Discretionary Examination Program managers were held accountable for annual goals in their annual performance expectations. Further, we found that Reporting Compliance function management had

¹ The data processing arm of the Internal Revenue Service. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

initiated operational reviews that would help manage and enhance the Discretionary Examination Program.

However, Discretionary Examination Program managers were not effectively using Customer Satisfaction Survey results.² Customer Satisfaction Survey results indicated that the combined W&I Division Earned Income Tax Credit (EITC) and Discretionary Examination Programs' percentage of taxpayers dissatisfied as of December 31, 2003, was 51 percent, which was over their goal of 42 percent.³ Although W&I Division Reporting Compliance function managers are developing an initiative in part to help address taxpayer concerns regarding the length of the examination process and the time spent on the examination, the Customer Satisfaction Surveys identified other areas in which taxpayer satisfaction could be enhanced.

We recommended that the Commissioner, W&I Division, evaluate the Customer Satisfaction Survey results to identify which taxpayer concerns are being addressed through ongoing initiatives and which concerns still need to be addressed by the Discretionary Examination Program.

Management's Response: Internal Revenue Service (IRS) management disagreed with the report recommendation and the finding which noted that they were not effectively using the Customer Satisfaction Survey results. They contend that the survey vendor provides an analysis of results which identifies improvement priorities. According to the vendor, improvements in these areas have the greatest potential to improve taxpayer satisfaction. As a result, IRS management continually focused their efforts on those areas identified as improvement priorities.

Additionally, IRS management does not believe our report adequately recognizes all of the efforts the IRS has taken to improve taxpayer satisfaction. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment: Although the W&I Division Reporting Compliance function has initiatives to improve taxpayer satisfaction, we did not find any Discretionary Examination Program manager or employee that was aware of any use or detailed analysis of the surveys. The surveys raised taxpayers' concerns beyond those cited by the IRS, provided insightful taxpayer comments, and outlined details of the Customer Satisfaction ratings by campus. We believe using this information would focus the W&I Division Reporting Compliance function's ongoing improvement initiatives and highlight continuing taxpayer concerns. This information would also allow Discretionary Examination Program campus managers to timely initiate corrective actions when a campus was not meeting their goal for Customer Satisfaction.

² Taxpayer satisfaction is periodically measured by Customer Satisfaction Surveys. These surveys allow taxpayers to provide feedback and rate their satisfaction level (i.e., satisfied, dissatisfied, or neither satisfied nor dissatisfied) with the Internal Revenue Service's customer service.

³ The surveys capture combined data for the EITC and Discretionary Examination Programs and do not break out the results between the two Programs.

In their response, W&I Division executives cited an increase in the level of Customer Satisfaction reported in a recent survey. A prior vendor report had mentioned a similar increase but had also noted that this increase was not statistically significant. While we

still believe our recommendation is worthwhile, we do not intend to elevate our disagreement concerning it to the Department of the Treasury for resolution.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. 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.

**The Wage and Investment Division’s Discretionary Examination Program
Effectively Monitored Performance Data to Meet Annual Program Goals**

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The Wage and Investment Division's Discretionary Examination Program Effectively Monitored Performance Data to Meet Annual Program Goals

Background

The Internal Revenue Service's (IRS) Wage & Investment (W&I) Division serves approximately 121 million taxpayers who file a U.S. Individual Income Tax Return (Form 1040) with no accompanying Schedules C, E, or F; no Employee Business Expenses (Form 2106); and no international activity.¹ The W&I Division Reporting Compliance function conducts examinations of tax returns filed by W&I Division taxpayers that meet certain examination criteria. These examinations look at the less complex issues on tax returns that can be verified from records that could be easily submitted by mail.

The W&I Division Reporting Compliance function is made up of several programs. The Earned Income Tax Credit (EITC) Program is responsible for the examination of tax returns with EITC claims. The Discretionary Examination Program is responsible for the examination of all non-EITC tax returns. Even though these are separate program areas, the examination of tax returns is done by the same employees in the five W&I Division campuses.²

The W&I Division, in its strategic assessment,³ identified the risk of declining compliance as a key issue and recognized the continuing need to improve its enforcement programs to reduce the risk of noncompliance. As a result, the workload for the Discretionary Examination Program has been increased from 44,117 examination closures in Fiscal Year (FY) 2002 to almost 80,000 examination closures planned for FY 2004.

To assess the Discretionary Examination Program, we used the Program Assessment Rating Tool (PART) criteria created by the Office of Management and Budget (OMB) to rate Federal Government programs. The PART is a systematic method of assessing the performance of program activities across the Federal Government. It is a diagnostic

¹ Schedule C – Profit or Loss From Business (Sole Proprietorship); Schedule E – Supplemental Income and Loss; Schedule F – Profit or Loss From Farming.

² The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

³ Strategic assessments are part of the IRS' strategic planning, budgeting, and performance measurement process.

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tool with the main objectives being to improve program performance and link performance to budget decisions.

This is the second in a series of reviews using the PART process to focus on the Discretionary Examination Program.⁴ Our first review found that the W&I Division Compliance function has a comprehensive strategic planning process to help ensure it manages resources and meets its annual goals and performance levels for the Discretionary Examination Program. However, we reported that the IRS will not be able to measure the success of its efforts to improve the goal of service to all taxpayers through the fair and uniform application of the tax law because the Discretionary Examination Program currently does not have long-term outcome goals to assess the Program's effect.

Our current review assessed Discretionary Examination Program management effectiveness using Section III of the PART. This section focuses on whether a program is effectively managed to meet annual program performance goals. Key areas include evaluation of program improvements, performance data collection, and program manager accountability. Specifically, we looked at the following FY 2004 annual performance goals for the W&I Division Discretionary Examination Program⁵ using the PART process:

- Discretionary Audit Closures.
- Service Center (SC)⁶ Examination Customer Satisfaction/Dissatisfaction.
- Correspondence Examination Embedded Quality.
- SC Examination Employee Satisfaction.
- Percentage of Aged Mail to Total Started Inventory.

⁴ *More Information Is Needed to Determine the Effect of the Discretionary Examination Program on Improving Service to All Taxpayers* (Reference Number 2003-40-185, dated August 2003).

⁵ Our first review evaluated the adequacy and relevance of Program goals. We did not reevaluate these issues during our current review.

⁶ IRS campuses were formerly known as Service Centers.

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- Discretionary Cycle Time.
- Projected New Start Volume.

This review was performed at the W&I Division Headquarters in Atlanta, Georgia, in the Discretionary Examination Program Office during the period April through July 2004. 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.

Discretionary Examination Program Managers Effectively Used Data to Monitor Their Annual Performance Goals

Our analysis of national- and campus-level management information reports confirmed that the Discretionary Examination Program was on schedule to meet its FY 2004 goals. Discretionary Examination Program management had timely initiated corrective actions when management information reports indicated that interim monthly performance goals were not met or when there was an indication that the data in the management information reports were incorrect.

When performance results did not meet expected outcomes, management took immediate action. For example, Discretionary Examination Program staff identified, through their reviews of management information reports, a potential problem in meeting the Program's annual goal for starting over 95,000 new examinations in FY 2004. To accomplish the goal, each program area within the Discretionary Examination Program was given specific monthly and annual goals.

As of March 2004, the Discretionary Examination Program was exceeding the expected volume for starting new examinations. However, the unallowable deductions program area had not received enough cases to meet its monthly or annual goals. Since there is no way to control the number of tax returns with unallowable deductions, the Program manager reduced the annual goal for the unallowable deduction cases and increased the goal for another program area. This timely action ensured resources were productively used and that the Discretionary Examination Program's annual goal for new examinations would be met.

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The Program manager and his staff are currently working with the Small Business/Self-Employed Division and the Submissions Processing function to improve the unallowable deduction case selection process.

The Program manager also provided us an example of where his staff identified that the performance data for measuring Discretionary Examination Program quality was coded for the incorrect Program. EITC and Discretionary Examination Program cases were sometimes incorrectly coded, causing some of the Discretionary Examination Program quality results to be reported under the EITC Program and vice versa. While the overall combined quality results for correspondence examinations was correct, management does not know if the Discretionary Examination Program is meeting its individual quality goal.

This was the first year that EITC Program quality and Discretionary Examination Program quality have been reported with different codes. The Program manager and his staff were working closely with the Quality Team and the campus managers to prevent the incorrect coding issue from recurring in the next fiscal year.

The OMB PART process stresses that agencies need to “regularly collect timely and credible performance information...and use it to manage the program and improve performance.” By effectively gathering performance data and continuing to monitor their Program's success in achieving its annual goals, Discretionary Examination Program management can ensure their resources are maximizing their compliance efforts.

The Wage and Investment Division's Discretionary Examination Program Effectively Monitored Performance Data to Meet Annual Program Goals

Discretionary Examination Program Managers Could Expand Their Use of the Customer Satisfaction Survey Results

Discretionary Examination Program management was not effectively using the Customer Satisfaction Survey results.⁷ The W&I Division EITC and Discretionary Examination Programs were meeting their overall FY 2004 combined goal for percentage of taxpayers satisfied.⁸ However, the Programs were not meeting their goal of limiting the percentage of taxpayers that were dissatisfied. As of December 31, 2003, based on the Customer Satisfaction Survey results, the percentage of taxpayers satisfied met the 30 percent goal. However, the percentage of taxpayers dissatisfied was 51 percent, which was over the taxpayer dissatisfaction goal of 42 percent. In addition, 19 percent of the taxpayers responding to the surveys were neither satisfied nor dissatisfied with the W&I Division EITC and Discretionary Examination Programs' service.

Our analysis of the Customer Satisfaction Survey results for the W&I Division EITC and Discretionary Examination Programs indicated that only two W&I Division campuses were actually meeting or exceeding the goal for percentage of taxpayers satisfied and only one W&I Division campus was meeting the goal for limiting the percentage of taxpayers dissatisfied. Table 1 compares the goals with the actual survey results by W&I Division campus.

⁷ Taxpayer satisfaction is periodically measured by Customer Satisfaction Surveys. These surveys allow taxpayers to provide feedback and rate their satisfaction level (i.e., satisfied, dissatisfied, or neither satisfied nor dissatisfied) with the IRS' customer service.

⁸ The surveys capture combined data for the EITC and Discretionary Examination Programs and do not break out the results between the two Programs.

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**Table 1: Fiscal Year 2004 EITC and Discretionary
Examination Programs Customer Satisfaction Survey Results
(as of December 2003)**

Campus	Taxpayers Satisfied	Taxpayers Dissatisfied
FY 2004 Goal	30 percent	42 percent
Andover	27 percent	45 percent
Atlanta	25 percent	55 percent
Austin	27 percent	60 percent
Fresno	30 percent	52 percent
Kansas City	38 percent	42 percent
W&I Division Combined	30 percent	51 percent

Source: IRS Customer Satisfaction Survey for Compliance Center Examination W&I Division National Report (issued May 2004) and the FY 2004 Examination Work Plan and Guidelines Report.

Although the Customer Satisfaction Survey process has provided feedback on the quality of service received by taxpayers, the Program manager informed us that he did not believe that the survey results were reflective of his Program because the survey results for the EITC and Discretionary Examination Programs were combined. Even though the same employees work both Programs, the Program manager told us that combining the survey results for both Programs might adversely affect their reliability as related to the Discretionary Examination Program. We believe the Program manager could decrease taxpayer dissatisfaction by analyzing the cause of these fluctuations and taking further corrective actions to address them.

The Director, Reporting Compliance, stated that he and his staff used the Customer Satisfaction Survey results and they have taken actions, including developing a Reporting Compliance function initiative called the 80/20 concept. The initiative was designed, in part, to increase productivity and taxpayer satisfaction by reducing the length of the audit process and the time spent on the audit. In addition, in June 2004 an analyst prepared a summary of the ongoing W&I Division Reporting Compliance initiatives that addressed the Customer Satisfaction Survey results.

The Wage and Investment Division's Discretionary Examination Program Effectively Monitored Performance Data to Meet Annual Program Goals

We believe that Discretionary Examination Program management could further improve taxpayer satisfaction by evaluating the Customer Satisfaction Survey results to identify which taxpayer concerns are being addressed through ongoing Reporting Compliance function initiatives and which concerns still need to be addressed. The contractor that conducted the survey recommended several areas for management to direct their focus. For example, the contractor highlighted the time spent on the examination process as one area for improvement. While the W&I Division Reporting Compliance function has taken steps to address this issue, the surveys identified other areas in which taxpayer satisfaction could be enhanced. These areas included providing the taxpayer a clearer explanation of the adjustment, keeping the taxpayer informed of the status of their cases, and ensuring the taxpayers understood the report they received.

Although the Discretionary Examination Program followed the OMB PART process by regularly collecting timely and credible performance information, it did not make effective use of all the data to manage the Program and improve performance. Effectively using these data would support the IRS Commissioner's goal for the IRS to expand its focus towards taxpayer compliance without comprising the strategic goal of customer service. The Commissioner stated that, "The IRS commitment to service continues, even as we sharpen our focus on enforcement. This is, therefore, not an issue of service OR enforcement, but of service AND enforcement. They are both important priorities, as reflected in our working equation *Service + Enforcement = Compliance.*"

Recommendation

The Commissioner, W&I Division, should:

1. Evaluate the Customer Satisfaction Survey results to identify which taxpayer concerns are being addressed through ongoing initiatives and which concerns still need to be addressed by the Discretionary Examination Program.

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Management's Response: IRS management disagreed with our finding that they were not effectively using the Customer Satisfaction Survey results. They contend that the survey vendor provides an analysis of results which identifies improvement priorities. According to the vendor, improvements in these areas have the greatest potential to improve taxpayer satisfaction. As a result, IRS management continually focused their efforts on those areas identified as improvement priorities.

Additionally, IRS management does not believe our report adequately recognizes all of the efforts the IRS has taken to improve taxpayer satisfaction.

Office of Audit Comment: Although the W&I Division Reporting Compliance function has initiatives to improve taxpayer satisfaction, we did not find any Discretionary Examination Program manager or employee that was aware of any use or detailed analysis of the surveys. The surveys raised taxpayers' concerns beyond those cited by the IRS, provided insightful taxpayer comments, and outlined details of the Customer Satisfaction ratings by campus.

We believe using this information would focus the W&I Division Reporting Compliance function's ongoing improvement initiatives and highlight continuing taxpayer concerns. This information would also allow Discretionary Examination Program campus managers to timely initiate corrective actions when a campus was not meeting their goal for Customer Satisfaction.

In their response, W&I Division executives cited an increase in the level of Customer Satisfaction reported in a recent survey. A prior vendor report had mentioned a similar increase but had also noted that this increase was not statistically significant.

In addition to the general performance standards required for all IRS managers, specific performance standards related to the Discretionary Examination Program were documented in the Program manager's and the five campus managers' annual performance expectations. Although these expectations did not individually address each specific Program goal, they did set the expectation that the managers

**Discretionary Examination
Program Managers Were Held
Accountable for Program
Performance Results**

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would be evaluated on their ability to meet the Discretionary Examination Program's annual goals.

The OMB PART process stresses that program management identify the managers who are responsible for achieving key program results and establish performance standards for them. This established a link for Discretionary Examination Program managers between management performance and Program results. It also emphasized the importance of Program accomplishments by forcing management to focus their personal performance towards achieving their Program's annual goals.

Reporting Compliance Function Management Initiated Operational Reviews to Evaluate Management Effectiveness

Reporting Compliance function management initiated operational reviews to help manage and enhance the Discretionary Examination Program. As of May 2004, Reporting Compliance function management had completed and reported the results for operational reviews at the Atlanta, Georgia, and Austin, Texas, Campuses. The operational reviews addressed the entire Reporting Compliance function, including specific Discretionary Examination Program annual goal activities, and identified several areas of concern.

For example, the Atlanta review team identified errors in a small sample of closed EITC and Discretionary Examination Program cases. In 27 percent of the cases reviewed, there were errors such as delayed acknowledgements, incomplete workpapers, and not giving the taxpayer enough time to respond. The review team recommended that, because of the small sample, Atlanta management review additional cases to validate the error rate and then discuss the results with their employees. If implemented, this action should help to improve the quality of the Discretionary Examination Program cases, improve customer service, and help the Discretionary Examination Program meet its annual quality performance goals.

The OMB PART process stresses that management needs to develop a system of evaluating program management and correcting deficiencies when they are identified. By using the information obtained through operational reviews, Discretionary Examination Program management could effectively monitor management effectiveness and address Program deficiencies.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Wage and Investment (W&I) Division Discretionary Examination Program is effectively managed to help ensure it meets its intended goals, including the evaluation of Program performance through adequate data collection, evaluation of Program deficiencies, and Program manager accountability. To accomplish this objective, we:

- I. Determined whether the Discretionary Examination Program is effectively managed to meet its annual performance goals.
 - A. Interviewed Program management and reviewed various national- and campus-level¹ management information reports² to determine whether management used regularly collected timely and credible performance information to manage the Discretionary Examination Program and improve performance.
 - B. Interviewed Program management and reviewed various national- and campus-level management information reports to determine whether the quality assurance process for the Discretionary Examination Program ensures performance measures accurately reflect the Program's performance.
- II. Determined whether Discretionary Examination Program management is held accountable for performance results.
 - A. Obtained and reviewed the Fiscal Year (FY) 2004 Internal Revenue Service (IRS) manager performance standards and additional Discretionary Examination Program expectations for the Program and campus-level managers.
 - B. Compared the IRS manager performance standards and additional expectations to the Discretionary Examination Program's FY 2004 performance goals to determine whether the manager performance standards and additional expectations are linked to the Program's annual performance goals.
- III. Determined whether Discretionary Examination Program management has taken meaningful steps to evaluate Program management effectiveness and address management deficiencies.

¹ The data processing arm of the Internal Revenue Service. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² We did not audit the reliability of the data contained in the national- and campus-level management information reports.

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- A. Interviewed Discretionary Examination Program management to determine how they evaluate Program management effectiveness and ensure management deficiencies are identified and addressed.
- B. Reviewed the W&I Division Business Performance Review Reports for the first 2 quarters in FY 2004 to determine whether the Discretionary Examination Program is effectively being managed and if any management deficiencies were identified during this process.
- C. Reviewed operational reviews conducted by W&I Division Reporting Compliance function management at the Atlanta, Georgia, and Austin, Texas, Campuses to evaluate Program management effectiveness and identify any management deficiencies in the Discretionary Examination Program.

**The Wage and Investment Division's Discretionary Examination Program
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Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Mary V. Baker, Director

Bryce Kisler, Audit Manager

Alan Lund, Lead Auditor

Craig Pelletier, Auditor

Nelva Usher, Auditor

**The Wage and Investment Division's Discretionary Examination Program
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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, Compliance, Wage and Investment Division SE:W:CP
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
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Office of Management Controls OS:CFO:AR:M
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S

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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
OCT 13 2004

October 12, 2004

MEMORANDUM FOR GORDON C. MILBOURN III
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report: The Wage and Investment Division's
Discretionary Examination Program Effectively Monitored
Performance Data to Meet Annual Program Goals
(Audit # 200440009)

I reviewed your report and appreciate your recognition of our leadership in the Wage & Investment (W&I) Discretionary Examination Program and their effective operational reviews and use of data to monitor their annual performance goals. The Discretionary Examination Program has made significant improvements in fiscal year (FY) 2004 to augment compliance results, program monitoring, and oversight, through aggressive goal setting and process improvements. We made great strides in decreasing the number of days an audit remains open. In FY 2002, a W&I discretionary examination remained open for an average of 220 days. In FY 2004, this figure declined to 162 days, a 26 percent improvement. We also decreased the volume of aged mail. In September 2004, there were 1,259 aged pieces of correspondence in this operation compared to 2,111 aged pieces to be worked at this time last year.

As mentioned in your report, W&I Discretionary Examination closures increased significantly from FY 2002 to FY 2004. We closed 107,000 examinations during FY 2004, compared to just over 44,000 in FY 2002. This achievement becomes even more significant when you take into account that discretionary program resource levels remained relatively constant over the past three years. Your report and the statistics described above clearly show that the W&I Discretionary Examination Program is utilizing its resources to maximize their compliance efforts.

However, we are not in agreement with your finding that management was not effectively using the customer satisfaction survey results. According to the survey vendor, Pacific Consulting Group (PCG), survey results can best be improved by utilizing leverage analysis. "Leverage analysis combines both

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dissatisfaction and importance into a single measure to prioritize those items that will have the greatest impact on customer satisfaction." PCG identifies these items as improvement priorities and states that improvements in these areas have the greatest potential to improve our customer satisfaction ratings. We continually focus our efforts on the top improvement priorities identified by the survey results.

We do not believe that this report adequately recognizes all of our efforts to improve customer satisfaction. For example, "Length of Audit Process" and "Time You Spent on Audit" were the top two improvement priorities identified during FY 2003 and FY 2004 for Compliance Center Exam customers. To specifically address these top two improvement priorities, we introduced a new examination technique, called the 80/20 concept. This technique encourages examiners to only pursue significant tax issues and to use their professional judgment in order to minimize requests for documentation from the taxpayers. Successful implementation of this concept will materially enhance examiners' ability to close cases earlier, reduce taxpayer burden, and reduce cycle time.

We also instituted a number of other initiatives to improve customer satisfaction by reducing overage cases and overage correspondence. These include:

- Redesigning examination notices to improve taxpayer understanding and compliance with documentation requests.
- Providing monthly aged listings and "Days in Status" reports to the Campuses.
- Developing a decision support tool to equip Tax Examiners with a research and "audit walk-through" guide.
- Streamlining the audit process by utilizing automation and risk-based selection methodology.
- Establishing specific site-level goals to improve cycle time for each type of Exam closure.
- Conducting meetings with campus management to identify and eliminate barriers from the Internal Revenue Manual (IRM) that lengthen the examination process without providing any additional value.

The above actions definitely had a positive impact on the top two improvement priorities. Within a two-year period, we decreased cycle time by 26 percent, while reducing burden on taxpayers.

In addition to addressing the top two improvement priorities, we also review other improvement priorities and take action when appropriate. For example, we are currently working with the W&I Compliance Joint Operations Center (JOC) Liaison staff to improve the level of telephone service being provided to our customers. Plans are underway for FY 2006 to move the Exam telephone

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function to an enterprise routing system. This will allow assistors across the country to handle customer inquiries. Customers will call a toll-free number and be routed to the first available assistor. Overall response time is expected to decrease.

Based on our analysis of survey results, we implement both long-term and short-term improvement strategies. Considering all of our efforts to reduce cycle time, reduce taxpayer burden, simplify and clarify our notices, improve our telephone operations, and better equip our tax examiners to provide quality service to taxpayers, we believe that the W&I Division took appropriate action in response to the Examination Customer Satisfaction Surveys. In fact, we have seen a positive trend in customer satisfaction scores as indicated in the most recent results which reflected a 5 percent increase over the prior period survey. We will continue to use the survey results to guide our improvement initiatives and will closely monitor our progress to further enhance overall customer satisfaction.

Attached is additional information regarding your recommendation. If you have any questions, please call me or members of your staff may call Jim Grimes, Director, Reporting Compliance, at (404) 338-7643.

Attachment

**The Wage and Investment Division's Discretionary Examination Program
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Attachment

RECOMMENDATION #1

The Commissioner, W&I Division should ensure that the Customer Satisfaction Survey results are analyzed to identify areas where the Discretionary Examination Program can improve its service to taxpayers.

CORRECTIVE ACTIONS

We do not agree that additional action is required. In the past, we analyzed the results of each Customer Satisfaction survey that was administered and took appropriate action. We will continue to do so in the future by focusing our efforts on those areas identified as improvement priorities.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A