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GAO

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

December 1999

TAX ADMINISTRATION

IRS' 1999 Tax Filing Season

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United States General Accounting Office
Washington, D.C. 20548

General Government Division

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December 15, 1999

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

Dear Mr. Chairman:

In response to your request, this report discusses the Internal Revenue Service's (IRS) performance during the 1999 tax filing season. Besides providing data on various indicators that IRS uses to measure its filing season performance, we discuss the following areas: (1) telephone service; (2) service provided at walk-in sites; (3) other taxpayer service efforts; (4) Earned Income Credit noncompliance; (5) electronic filing; (6) implementation of recent tax law changes; and (7) implementation of a new return and remittance processing system. This report also includes several recommendations to the Commissioner of Internal Revenue.

We are sending copies of this report to Senator William V. Roth, Jr., Chairman, and Senator Daniel P. Moynihan, Ranking Minority Member, Senate Committee on Finance; Representative Bill Archer, Chairman, and Representative Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means; and Representative William J. Coyne, Ranking Minority Member of this Subcommittee. We are also sending copies to the Honorable Lawrence H. Summers, Secretary of the Treasury; the Honorable Charles O. Rossotti, Commissioner of Internal Revenue; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

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

Sincerely yours,

James R. White

James R. White
Director, Tax Policy and
Administration Issues

Executive Summary

Purpose

As of October 29, 1999, U.S. taxpayers had filed about 126 million individual income tax returns. For most taxpayers, their only contacts with the Internal Revenue Service (IRS) are associated with this filing activity. In addition to the filing itself, those contacts generally involve (1) taxpayers' calls to IRS or visits to an IRS walk-in site to obtain tax forms or publications or to seek help in preparing their returns and/or (2) IRS correspondence to taxpayers about problems, such as computational errors or missing Social Security numbers (SSN), that can affect processing of taxpayers' returns and/or issuance of their refunds.

In response to a request from the Subcommittee on Oversight of the House Committee on Ways and Means, GAO assessed IRS' performance during the 1999 filing season. To do so, GAO compiled and analyzed data on IRS' own filing season-related performance measures. In addition, GAO assessed IRS' efforts to (1) improve telephone service; (2) expand the availability of walk-in services; (3) provide other forms of assistance, such as through the Internet; (4) reduce Earned Income Credit (EIC) noncompliance; (5) increase the use of electronic filing; (6) implement recent tax law changes; and (7) implement a new return and remittance processing system.

Background

Most taxpayers file their returns between January 1 and April 15, 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.

The 1999 filing season included several challenges for IRS. For example, it was the first year that IRS provided around-the-clock telephone service and used a new computer system nationwide to process tax returns. It was also the first year that IRS implemented a legislative provision aimed at reducing EIC noncompliance and that qualifying taxpayers could claim several new tax credits and deductions, including a child tax credit.

Results in Brief

IRS met or exceeded its 1999 goals for several performance measures. But, IRS fell short of its goals in two key areas—taxpayers' ability to access IRS' toll-free telephone service and the quality of IRS' responses to taxpayers who called IRS with tax law questions. GAO also identified certain features of IRS' methodology for measuring the quality of responses to tax law questions that warranted IRS' attention. IRS' accomplishment in a third area, that is, timeliness of refunds for paper returns, raised some questions about IRS' timeliness that IRS could not answer.

GAO's assessment of the 1999 filing season identified many positive aspects. But, there were problems—the most significant involving IRS' telephone service. IRS took several steps in an attempt to improve telephone service in 1999, such as having assistors available to answer the telephone 24 hours a day, 7 days a week. But service did not improve. Instead, it deteriorated. GAO's work indicated that this deterioration resulted from (1) unrealistic assumptions about the implementation and impact of IRS' changes and (2) other problems managing staff training and scheduling and implementing new technology. Although GAO recognizes the difficulty in anticipating how new initiatives will work and what their effect will be, the problems IRS encountered in 1999, when considered together, raise significant questions about IRS' management of the telephone assistance program.

With respect to other aspects of the 1999 filing season, GAO observed the following:

- IRS enhanced the availability of its walk-in services by, among other things, increasing Saturday hours and making services more accessible to taxpayers who did not have convenient access to a walk-in office. IRS also did a better job of measuring walk-in customer satisfaction in 1999 than in 1998, and taxpayers who responded to IRS' survey scored their overall satisfaction with an average of 6.44 on a 7-point scale. However, IRS made little progress in measuring the quality and timeliness of its walk-in services.
- Use of IRS' World Wide Web site on the Internet increased significantly during the 1999 filing season. Despite the site's success, IRS' data pointed to some problems with the feature that allows taxpayers to get answers to tax law questions via electronic mail (E-mail).
- IRS stopped millions of dollars in erroneous EIC claims in 1999 by validating SSNs and scrutinizing certain claims. IRS also implemented new procedures in 1999 that require certain taxpayers to document their eligibility for the EIC before IRS approves their claim (a process referred to as "recertification"). IRS data indicate that implementation of this new process helped reduce the number of erroneous claims. GAO identified certain opportunities to streamline the recertification process and thus make it less burdensome to taxpayers and IRS. Also, IRS service centers were not consistently following national guidelines for recertification, which could result in disparate treatment of taxpayers.
- Of the almost 126 million tax returns filed in 1999, 29.3 million (23 percent) were filed electronically. IRS implemented several initiatives in 1999 directed at making electronic filing paperless and thus more appealing to

potential users. At the time GAO completed its work, IRS had not finished assessing all of those initiatives.

- Twenty percent of the returns filed in 1999 included the new child tax credit. Many of those taxpayers erred in calculating the credit amount. Many other taxpayers who were eligible for the credit failed to claim it. Correction of these errors increased IRS' processing workload.
- IRS made significant changes to the computer systems it uses to process returns and remittances. IRS accomplished those changes without any discernible processing disruptions.

GAO is making several recommendations to the Commissioner of Internal Revenue.

Principal Findings

IRS Met Most of Its Filing Season Goals but Missed Goals in Two Key Areas Affecting Taxpayers

IRS uses various measures to gauge its performance during a filing season. In 1999, IRS either came close to, met, or exceeded the goals for 7 of the 9 measures for which it established goals, including measures relating to the accuracy with which it processes returns and fills orders for tax forms and the timeliness with which it processes tax payments. For the other two measures, IRS fell short of its goals.

The first missed goal dealt with the ability of taxpayers to access IRS' toll-free telephone service. Issues surrounding IRS' telephone service in 1999 are discussed in the next section.

The second missed goal dealt with the quality of IRS' responses to taxpayers who called IRS with tax law questions. IRS' goal was to answer 85 percent of those questions accurately; however, it achieved an accuracy rate of 72.5 percent. According to IRS, one reason for the lower accuracy was that assistors needed knowledge in more areas of the tax law in 1999 than in the past and that the assistors may not have had recent or complete training in the additional areas. GAO also identified some features of IRS' sampling methodology that could have a bearing on the results of its accuracy measurement. For example:

- During the filing season, IRS monitored calls for 8 hours a day, Monday through Friday, even though it provided around-the-clock service. (IRS has since expanded its monitoring hours.) The effect on IRS' accuracy measure would depend on the extent to which taxpayers called during the nonmonitored hours and the difference, if any, between the accuracy of assistors who worked during the monitored hours versus those who worked during the nonmonitored hours.

- IRS based its planned sample size on assumptions about the number of incoming telephone calls and estimates of the number of work hours available to monitor. IRS did not achieve the estimated number of calls it planned to monitor. The use of assumptions and estimates that are not achieved may weaken the precision of the results of its monitoring.

IRS' accomplishment in a third area, timeliness in issuing refunds to taxpayers who filed their returns on paper, raised some questions that IRS had no data to answer. IRS measured its performance in that area in terms of the percentage of refunds issued within 40 days. Because 1999 was the first year that IRS measured its refund timeliness in that way, IRS considered 1999 to be a baseline year and did not set a performance goal. However, IRS data showed that IRS took longer than 40 days to issue about 15 percent of the refunds on paper returns. GAO's attempt to learn more about those 15 percent, such as how many days beyond 40 the affected taxpayers had to wait before receiving their refunds, was unsuccessful because IRS did not have the necessary data. (See pp. 20 to 27.)

IRS Telephone Service Deteriorated

During the 1998 filing season, IRS provided a 74-percent level of service, meaning that 74 percent of taxpayers' attempts to contact an IRS assistor by telephone were successful (these data do not reflect the quality of the service taxpayers received, only their success in reaching an assistor).[1] In an effort to provide better telephone service in 1999, IRS, among other things, (1) extended its hours of operation to 24 hours a day, 7 days a week, and (2) started managing its telephone operations centrally, which included implementation of new call routing technology. Although these initiatives were intended to improve telephone service, the level of service during the 1999 filing season dropped to 55 percent.

GAO's discussions with IRS officials and review of available documentation indicated that the decline in telephone service resulted from unrealistic assumptions. For example, IRS assumed that productivity would increase, but it decreased. IRS also assumed that around-the-clock service would level demand by enabling some taxpayers to call during off-hours, thereby reducing the number of calls coming in during peak times;

[1] Unlike level of access, level of service considers abandoned telephone calls as unsuccessful call attempts.

but IRS' expectations did not fully materialize. Among other things, IRS' inaccurate assumptions led to discontinuance of a special procedure for handling complex tax law questions, which further contributed to the deterioration in telephone service.

Although GAO recognizes the difficulty in anticipating how new initiatives will work and what their effect will be, the problems IRS encountered when considered together, raise significant questions about IRS' management of the telephone assistance program in 1999. GAO saw evidence of (1) assumptions and decisions that appeared to be based on inadequate data or that seemed to ignore existing data, (2) a failure to appropriately time the training of assistors and coordinate the timing of union negotiations that would directly affect productivity and the development of work schedules, (3) inadequate testing and contingency planning with respect to new call routing technology, and (4) the absence of data that management would need to adequately assess what happened in 1999 and provide a basis for making appropriate changes for the 2000 filing season. (See pp. 28 to 37.)

IRS Expanded the Availability of Walk-In Services but Had Only Limited Ability to Measure Results

Staff at IRS' walk-in sites answer tax law questions, distribute tax forms and publications, and help taxpayers prepare their returns and resolve their account issues. IRS data show that walk-in sites served about 6.2 million taxpayers between January 1 and May 1, 1999—a slight increase over the number served during the same period in 1998.

IRS expanded the availability of walk-in services during the 1999 filing season. For example, IRS increased Saturday hours at more walk-in offices and used mobile vans and temporary space in shopping malls to make its services more accessible to taxpayers who were not near a walk-in office. IRS also did a better job of measuring customer satisfaction with its walk-in services. In 1998, IRS did not start distributing its satisfaction survey until late in the filing season. In 1999, IRS added questions to the survey and distributed it during the entire filing season. Taxpayers who responded to the survey in 1999 scored their overall satisfaction, on average, at 6.44 on a 7-point scale.

While IRS made progress in measuring customer satisfaction with walk-in services in 1999, it made little progress in measuring the quality and timeliness of those services. With respect to timeliness, for example, IRS established taxpayer wait-time goals but (1) the National Office did not require regional offices to report wait times and (2) most of IRS' walk-in sites had to manually track wait times, thus making the data more prone to error. IRS cannot determine if the walk-in program is meeting its objectives and goals, and thus whether it is an effective way of providing service, without meaningful nationwide performance data. (See pp. 38 to 42.)

Use of Other Sources of Taxpayer Assistance Increased, but Some Problems Existed

Besides the help that is available over the telephone and at walk-in sites, taxpayers can receive assistance from other sources, such as IRS' Web site. Measured by either the number of "hits" or the number of files downloaded, use of that site during the 1999 filing season increased by over 100 percent compared to 1998. The Web site also includes an E-mail feature that enables taxpayers to ask IRS questions about the tax law and receive a response.

Despite the general success of IRS' Web site during the 1999 filing season, including a favorable assessment by an outside organization, there were some problems. IRS tests showed that only 65 percent of the responses to E-mail questions during the 1999 filing season were accurate, and IRS data indicate that IRS did not meet its goal of responding to E-mail questions within an average of 2 business days. IRS could not actually determine how close it came to its timeliness goal in 1999 because it tracked response times in calendar days while its goal was in business days—a situation that IRS said it would correct for the 2000 filing season.

IRS also told GAO that it (1) would be providing staff with additional training on the E-mail topics with the highest error rates and (2) expects to have better workload projections and better work plans for the 2000 filing season, which should better enable IRS to meet its response-time goal by better ensuring that an adequate number of staff is available to meet the demand for service. (See pp. 43 to 46.)

IRS Continued to Stop Some Improper EIC Payments; Opportunities Exist to Streamline the EIC Recertification Process

IRS' continuing efforts to reduce EIC noncompliance by validating SSNs and scrutinizing certain EIC claims stopped millions of dollars in erroneous EIC payments in 1999. IRS also implemented procedures in 1999, as mandated by the Taxpayer Relief Act of 1997, that require certain taxpayers to document their eligibility for the EIC before IRS approves their claim (i.e., recertification). IRS data show that many taxpayers who were required to recertify did not claim the EIC in 1999, which seems to indicate that recertification helped reduce the number of improper claims. It is possible, however, that some of those taxpayers did not submit a claim in 1999 even though they were entitled to the EIC because they did not understand the recertification process or found it too burdensome.

The form that taxpayers are required to submit to be recertified may mislead them to believe that the information required to complete the form is sufficient for recertification. Taxpayers may become discouraged and confused when they realize that the form is not sufficient but, instead, leads to another IRS request for documents. Taxpayers might rightfully wonder why, if the documents required by later correspondence are essential for recertification, IRS did not tell them that those documents were required when IRS first notified them about the need to recertify. In addition, even though there was national guidance on the recertification process that service centers were to follow, the guidance was not followed consistently, which could result in disparate treatment of taxpayers. (See pp. 47 to 53.)

Use of Electronic Filing Continued to Increase

About 29.3 million individual income tax returns were filed electronically in 1999—an increase of about 19 percent over 1998. Even with that increase, about 77 percent of all individual returns were still filed on paper.

Consistent with a provision in the IRS Restructuring and Reform Act of 1998, IRS' strategic goal is to have 80 percent of all returns filed electronically by 2007. Toward that end, IRS, in 1999, implemented several initiatives directed at making electronic filing truly paperless (by eliminating the need for signature forms, checks, and payment vouchers) and thus more appealing to taxpayers and tax return preparers. Those initiatives enabled certain taxpayers to (1) sign their returns through, for example, the use of a personal identification number and (2) pay their tax liability by credit card or by a direct debit from their bank accounts. At the time GAO completed its work, IRS had not compiled the necessary data to assess the impact of all of those initiatives on electronic filing. (See pp. 54 to 59.)

New Child Tax Credit Was the Source of Many Taxpayer Errors

Some tax law changes mandated by the Taxpayer Relief Act of 1997 took effect during the 1999 filing season. One change involved a new child tax credit. According to IRS data, about 20 percent of all individual income tax returns filed in 1999 included a child tax credit claim. That credit caused some confusion for taxpayers, as evidenced by the large number of errors identified by IRS. About one-half of the errors were of a computational nature; the other one-half involved taxpayers' failure to claim a child tax credit to which they were entitled. The need to correct these errors added to IRS' processing workload and may have delayed some refunds. (See pp. 60 to 62.)

Significant Changes to Computer Systems Accomplished Without Processing Disruptions

IRS made significant changes this year to the computer systems it uses to process tax returns and remittances. GAO's work did not identify any significant disruption of IRS' ability to process returns and issue refunds that might be indicative of computer-related problems. (See p. 63.)

Recommendations

GAO is recommending that the Commissioner of Internal Revenue (1) analyze the results of its refund timeliness tests, (2) analyze the effect of not achieving the planned sample size for monitoring the accuracy of tax law calls, (3) implement a program for assessing the performance of IRS' walk-in sites, and (4) take steps to streamline the recertification process and avoid possible disparate treatment of taxpayers. (See p. 66.)

To better understand the problems facing IRS in providing good telephone service and help develop constructive solutions, GAO is reviewing, in more detail, IRS' management of its telephone operations. Accordingly, this report includes no recommendations in that area. GAO is not recommending changes in other areas, such as E-mail responses and the child tax credit, because IRS has taken or plans to take action to address the identified problems in those areas.

Agency Comments

In a letter dated December 3, 1999, the Commissioner of Internal Revenue commented on a draft of this report (see app. II). The Commissioner said that the draft report provided a fair and balanced assessment of IRS' efforts to improve processing while providing taxpayers with top quality service, and that IRS would make every effort to resolve the issues noted in the draft. The Commissioner's comments are discussed in more detail in chapter 10.

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Abbreviations

ECN	E-file Customer Number
EIC	Earned Income Credit
ERO	electronic return originator
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
NTEU	National Treasury Employees Union
PIN	personal identification number
SEA	selected expanded access
SSN	Social Security number
TCE	Tax Counseling for the Elderly
TRA97	Taxpayer Relief Act of 1997
VITA	Volunteer Income Tax Assistance

Introduction

This report responds to a request from the Chairman of the Subcommittee on Oversight of the House Committee on Ways and Means that we assess the Internal Revenue Service's (IRS) performance during the 1999 tax filing season. In April 1999, we testified before the Subcommittee on the interim results of our work.[1]

In addition to providing data on various indicators that IRS uses to measure its filing season performance, this report discusses (1) IRS' telephone service; (2) service provided at IRS walk-in sites; (3) other IRS efforts to assist taxpayers; (4) IRS efforts to reduce Earned Income Credit (EIC) noncompliance; (5) electronic filing; (6) IRS' implementation of certain tax law changes; and (7) implementation of IRS' new return and remittance processing system. The last chapter of this report contains our overall conclusions, several recommendations to the Commissioner of Internal Revenue, and IRS' comments on those recommendations.

Background

For most taxpayers, their only contacts with IRS involve the annual filing of their income tax returns. Most taxpayers file their returns between January 1 and April 15, the deadline for filing individual income tax returns. However, a large number of taxpayers get extensions from IRS that allow them to delay filing their returns until as late as October 15.

IRS provides various services in an effort to help taxpayers file correct returns. For example, taxpayers can (1) call IRS toll-free to get answers to tax law questions and order tax forms and publications; (2) get information or help in preparing their returns at IRS walk-in sites; (3) get their returns prepared at volunteer tax assistance sites sponsored by IRS; and get information, including answers to tax law questions, through IRS' Web site.

Most taxpayers file their returns on paper but a growing number have been filing electronically. In December 1998, IRS issued a strategic plan for expanding the use of electronic filing. As described by IRS, that plan was

> "designed to eliminate barriers, provide incentives, and use competitive market forces to make significant progress toward: (1) the overriding goal of 80 percent of all tax and information returns being filed electronically by the year 2007, and (2) the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically for taxable years beginning after 2001."

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[1] Tax Administration: IRS' Fiscal Year 2000 Budget Request and 1999 Tax Filing Season (GAO/T-GGD/AIMD-99-140, Apr. 13, 1999).

The 80-percent goal cited in IRS' plan derives from a requirement in the IRS Restructuring and Reform Act of 1998.

One benefit of electronic filing is that IRS can bypass its labor-intensive and error-prone paper processing system. For the 1999 filing season, IRS introduced a new processing system called the Integrated Submission and Remittance Processing System. The return and remittance processing systems that the new system replaced were old and could not be made year 2000 compliant.

Several new tax credits and deductions took effect in tax year 1998 (the tax year for which returns are filed in 1999). Those new credits and deductions included a maximum $400 tax credit for each qualifying child, an additional child tax credit that was designed to benefit taxpayers with three or more children, and various education-related deductions and credits.

One tax credit that has been around for several years is the EIC, which is a refundable tax credit established by Congress in 1975 to offset the impact of Social Security taxes and to encourage low-income workers to seek employment rather than welfare. Because of concerns about significant levels of noncompliance associated with the EIC, Congress, in fiscal year 1998, began appropriating funds to IRS that were specifically targeted at EIC noncompliance. With those funds, IRS has initiated various assistance and enforcement efforts focused on reducing that noncompliance. Also, in 1999, IRS implemented new procedures, as mandated by the Taxpayer Relief Act of 1997 (TRA97), that require certain taxpayers to document their eligibility for the EIC before IRS approves their claim.

Objective, Scope, and Methodology

Our objective was to assess IRS' performance during the 1999 filing season, with particular emphasis on several areas identified in the Subcommittee's request. To achieve our objective, we

- analyzed filing-season data from various IRS management information systems, such as the Management Information System for Top Level Executives; IRS data on processing errors, including errors involving the EIC and the child tax credit; and data on IRS' toll-free telephone assistance and IRS' Web site;
- obtained data on IRS' goals and accomplishments for various performance measures and discussed the methodology for computing many of those measures with cognizant officials;

- assessed IRS' methodology for measuring the quality of assistance provided taxpayers who call IRS with tax law questions and analyzed the results of that methodology;
- interviewed officials who were responsible for managing IRS' toll-free telephone operations as well as officials at telephone call sites in Atlanta, GA, and Fresno, CA, and analyzed the results of toll-free telephone service customer satisfaction surveys;
- interviewed officials at IRS walk-in assistance sites in the Georgia and Northern California District Offices; observed walk-in services provided at shopping centers, grocery stores, and mobile van sites by the Georgia, Northern California, and Central California District Offices; and analyzed the results of walk-in customer satisfaction surveys;
- interviewed IRS National Office officials about the Taxpayer Education Program, with an emphasis on volunteer tax preparation services that are supported by IRS;
- interviewed officials in IRS' Office of Electronic Tax Administration about various initiatives undertaken in 1999 in an effort to increase the use of electronic filing, reviewed data on taxpayer participation in the initiatives, and reviewed data on the results of those initiatives;
- interviewed officials in IRS' EIC Project Office and in the Atlanta, Fresno, and Kansas City, MO, Service Centers about various efforts to improve the level of compliance associated with EIC claims; analyzed data on the results of those efforts; and interviewed National Office officials located at the Brookhaven, NY, Service Center who were responsible for national EIC compliance efforts;
- reviewed IRS' returns processing guidance relating to the child tax credit, interviewed service center officials about their processing procedures, and discussed potential changes to IRS' forms and instructions with officials at IRS' National Office;
- obtained filing-season information from the largest national tax return preparation company; and
- reviewed reports issued by the Treasury Inspector General for Tax Administration on filing-season activities.

We did our work at IRS' National Office; the Atlanta, Brookhaven, Fresno, and Kansas City Service Centers; the Customer Service Center in Atlanta; and the Georgia and Northern California District Offices.[2]

[2] Except for Brookhaven, we selected these locations because we had staff available in those areas to do the work. We visited Brookhaven to interview officials who were responsible for EIC compliance work.

We requested comments on a draft of this report from the Commissioner of Internal Revenue. IRS provided comments in a letter dated December 3, 1999, and at a related meeting on the same date. We have incorporated IRS' comments as appropriate and have reprinted the letter in appendix II.

We did our work from November 1998 through October 1999 in accordance with generally accepted government auditing standards.

IRS Missed Its Filing Season Goals in Two Key Areas Affecting Taxpayers

IRS uses various measures to gauge its performance during a filing season. Those measures relate to timeliness, such as the number of days needed to process and issue refunds; quality, such as the accuracy of notices sent to taxpayers and answers to taxpayers' questions; and service accessibility, such as the extent to which taxpayers with tax-related questions were able to reach IRS by telephone.[1]

In 1999, according to IRS' own data, it met or exceeded its performance goals for five measures, came close to its goals for two measures, and fell short of its goals for two measures (i.e., quality of responses to tax law questions and level of access to the taxpayer service telephone system).[2] As shown in table 2.1, there were four other measures for which IRS had no goal in 1999. IRS' accomplishment in one of those areas, that is, timeliness of refunds for paper returns, raised some questions that IRS did not have the necessary data to answer.

[1] IRS also has various workload indicators, such as the number of returns received and refunds issued. Several of those indicators, which generally show a growth in IRS' filing season workload and a growth in taxpayer use of such things as electronic filing and direct deposits, are shown in appendix I.

[2] The goals shown in table 2.1 were set by IRS generally on the basis of prior experience and projected workload. We did not assess the appropriateness of IRS' goals.

Table 2.1: IRS' Performance Measures for the 1998 and 1999 Filing Seasons

	1998[a]		1999[a]	
Indicator	**Goal**	**Accomplishment**	**Goal**	**Accomplishment**
Accuracy of individual income tax return processing by Code and Edit staff[b]	Process 95% accurately	95.5% were processed accurately	Process 96% accurately	96.6% were processed accurately
Accuracy of individual income tax return processing by data transcribers[c]	Process 95% accurately	94.2% were processed accurately	Process 94.6% accurately	94% were processed accurately
Notice accuracy[d]	Provide accurate notices to taxpayers 98.5% of the time	Provided accurate notices to taxpayers 98.4% of the time	Provide accurate notices to taxpayers 98.5% of the time	Provided accurate notices to taxpayers 97.7% of the time
Timeliness of processing tax payments submitted with individual income tax returns[e]	Payments received 4/15/98 through 4/29/98 were to be deposited no later than 4/30/98	All payments received 4/15/98 through 4/29/98 were deposited by 4/30/98	Payments received 4/15/99 through 4/29/99 must by deposited by 4/30/99	All payments received 4/15/99 through 4/29/99 were deposited by 4/30/99
Accuracy of individual income tax refunds on paper returns[f]	Process 99.3% accurately	99.6% were processed accurately	Process 99.3% accurately	99.6% were processed accurately
Timeliness of refunds for individual income tax returns filed on paper[g]	Issue within an average of 40 days	Issued within an average of 34 days	Baseline year	Processed 84.7% of the refunds in 40 days or less
Timeliness of refunds for individual income tax returns filed electronically[h]	Issue within an average of 21 days	Issued within an average of 15 days	Process 98% of the refunds in less than 21 days	Processed 99.6% of the refunds in less than 21 days
Level of service provided by taxpayer service telephone system[i]	Not applicable[j]	Provided 74% level of service	Baseline year[k]	Provided 55% level of service
Level of access to taxpayer service telephone system[l]	Provide 70% level of access	Provided 91% level of access	Provide 80%-90% level of access[m]	Provided 69% level of access
Accuracy of tax law assistance[n]	Answer 96% of taxpayer's questions accurately	Answered 93.6% accurately	Not applicable	Not applicable
Tax law quality[o]	Not applicable	Not applicable	Answer 85% of taxpayers' questions accurately	Answered 72.5% accurately
Accuracy of processing form orders[p]	Process 96.5% accurately	Processed 97.3% accurately	Process 96.5% accurately	Processed 97% accurately
Level of customer satisfaction with toll-free telephone service[q]	Not applicable	Not applicable	Baseline year[r]	Average overall satisfaction of 6.31 on a 7-point scale (as of 3/99)[s]
Level of customer satisfaction with walk-in service[t]	Not applicable	Not applicable	Baseline year[r]	Average overall satisfaction of 6.44 on a 7-point scale (as of 3/99)[u]

[a]Data are as of April 1998 and April 1999, unless otherwise noted.

[b]Code and Edit staff are to prepare paper returns for computer entry by, among other things, ensuring that all data are present on the return and legible. This indicator represents the percentage of other-than-full-paid individual paper returns that are processed accurately by Code and Edit staff. Other-

than-full-paid returns are those that involve either a refund or an unpaid liability and account for the majority of paper returns processed.

[c]This indicator represents the percentage of other-than-full-paid, individual paper returns that are processed without transcription errors.

[d]This indicator is based on a sample of returns processing notices to be sent to individual and business taxpayers. Among other things, IRS uses returns processing notices to advise taxpayers of missing schedules or forms, missing SSNs, or refunds being delayed or used to offset another liability. IRS reviewers compare the printed notice to various data, including information in the taxpayer's account and on the taxpayer's tax return. The indicator is calculated by dividing the number of correct notices reviewed by the total number of notices reviewed. IRS told us that the results for individual and business taxpayers cannot be separated.

[e]Service centers are to deposit payments in a timely manner, generally within 24 hours of receipt. Because of the volume of payments received between April 15 and April 29, IRS suspends the 24-hour requirement during that period. Instead, IRS requires that all payments received during that period are to be deposited by the close of business on April 30. After April 29, the centers are to resume the 24-hour deposit schedule.

[f]This indicator is based on a sample of individual income tax returns filed on paper. The indicator is calculated as the percentage of refunds on those returns that are free of any IRS-caused errors in the name and address field or in the refund amount.

[g]In 1998, this indicator was based on a sample of paper returns and was an average calculated starting from the signature date on the return to the date the taxpayer should have received the refund, allowing 2 or 3 days after issuance (depending on whether the refund is paid by check or direct deposit) for the refund to reach the taxpayer or the taxpayer's bank account. The 1999 indicator was still based on a sample of paper returns; however, it was calculated as the percentage of refunds processed in 40 days or less. The days are counted from signature date to the day after the refund is issued, allowing 1 day for the refund to reach the taxpayer. IRS recalculated the 1998 data using the 1999 method and found that 88.1 percent of the 1998 refunds were processed in 40 days or less. IRS recalculated the 1999 data using the 1998 method and found that 1999 refunds were issued within an average of 34.6 days.

[h]In 1998, this indicator was based on a sample of electronically filed returns and was an average calculated from the date the return was received to the date the taxpayer should have received the refund, allowing 2 or 3 days after issuance (depending on whether the refund was by check or direct deposit) for the refund to reach the taxpayer or the taxpayer's bank account. The 1999 indicator was still based on a sample of electronically filed returns; however, it was calculated as the percentage of refunds processed in less than 21 days. The days are counted from the date the return is received to the date the refund is issued, with no allowance for the refund to reach the taxpayer. IRS recalculated the 1998 data using the 1999 method and found that 98.3 percent of the 1998 refunds were processed in less than 21 days. IRS recalculated the 1999 data using the 1998 method and found that 1999 refunds were issued within an average of 13.7 days.

[i]Level of service is calculated by dividing the number of calls answered by the total call attempts. Answered calls include calls to the voice messaging system that were subsequently returned by IRS. Total call attempts is the sum of calls answered, calls abandoned by the caller before receiving assistance, and calls that received a busy signal.

[j]IRS did not establish a goal for this indicator for 1998 because it was selected as an indicator after planning for the 1998 filing season had been completed.

[k]According to IRS, it is using fiscal year 1999 as a baseline, and, therefore, established no goal. However, IRS did track the measure in 1998 and achieved a 73.7 percent level of service.

[l]Level of access is the sum of the number of calls answered plus the number of abandoned calls divided by the total call attempts (as defined in i above).

[m]According to IRS, this goal was established as a range due to uncertainty about resource availability and implementation of new call routing technology.

[n]This indicator measured the accuracy of tax law information provided to taxpayers through the toll-free telephone assistance program. For 1998, the indicator was based on test calls placed to telephone assistors. For 1999, IRS changed the measure's name to Tax Law Quality and changed the methodology for testing the accuracy as described in note o.

[o] In 1999, IRS monitored actual telephone calls to assess the quality of answers to tax law questions.

[p] The accuracy with which forms distribution centers process taxpayers' orders is determined by randomly checking selected orders, monitoring telephone calls from taxpayers, and reviewing data transcription of written orders from taxpayers.

[q] This measure is determined through surveys of a random sample of taxpayers who call IRS' toll-free telephone numbers and choose to participate.

[r] According to IRS, it is using fiscal year 1999 as a baseline year; therefore, no performance goal was established.

[s] The results of the survey were also analyzed in a manner that shows 84 percent of the customers rated satisfaction with the handling of their case as a 6 or 7 on a 7-point scale.

[t] This measure is determined through surveys of taxpayers who visit IRS' walk-in sites and choose to participate.

[u] The results of the survey were also analyzed in a manner that shows 89 percent of the customers rated satisfaction with the handling of their case as a 6 or 7 on a 7-point scale.

Source: GAO analysis of IRS data.

Many Taxpayers Received Inaccurate Responses to Their Tax Law Questions

From 1989 to 1998, IRS measured the quality of assistance to taxpayers who called with tax law questions by making structured test calls to IRS assistors. This method was phased out after the 1998 filing season. During the 1998 filing season, besides making test calls, IRS also measured the quality of its tax law assistance by monitoring a sample of actual calls. In monitoring the calls, IRS assessed whether telephone assistors gave accurate responses and followed correct procedures when responding to taxpayers' questions. IRS used the results of that monitoring (an 83.2-percent accuracy rate) as a baseline for setting its 85-percent accuracy goal for the 1999 filing season. IRS also changed the name of this measure from "accuracy of tax law assistance" to "tax law quality."

Results of IRS' call monitoring during the 1999 filing season showed that IRS achieved an accuracy rate of 72.5 percent—12.5 percentage points below the goal and 10.7 percentage points below the achievement in 1998. IRS told us that one reason for the lower accuracy rate was the broader skill level each assistor needed in 1999. An IRS official explained that in 1998 an assistor may have needed expertise in only one or two topics. However, due to IRS' change in the equipment used to route telephone calls, as discussed later in this report, an assistor may have been required to answer questions on several more topics in 1999. The official told us that even though the assistors received training on the additional topics, they may not have used the training in several years or received complete training in all areas of a topic. Therefore, with the increase in the number of topics an assistor was responsible for and dated and/or limited training in the topics, the assistors were not always able to answer taxpayers' questions accurately.

IRS also noted that, in some instances, the assistor may have provided a correct answer to a taxpayer's question, but the call was scored as incorrect because the assistor failed to follow correct procedures. For example, the assistor may have failed to provide his or her employee identification number or inform the taxpayer which form or schedule to use when filing the return. During the filing season, IRS did not capture the data needed to determine the extent to which calls were inaccurate because the assistor provided an incorrect response versus failed to follow prescribed procedures. As of the end of June 1999, IRS began gathering that kind of data. IRS said that it would use the data to help focus training for assistors, which it planned to provide before the 2000 filing season.

We reviewed the method that IRS used to score the overall accuracy of its responses to tax law questions, that is, its decision to score the call as inaccurate if any part of the answer was incorrect. This scoring method is one of several analytical approaches for measuring accuracy and is more conservative than most other options because it tends to produce a lower accuracy rate than might result if other scoring methods were used.

We also reviewed IRS' sampling plan for assessing tax law quality and noted that IRS' results for the filing season were based on telephone calls monitored for 8 hours a day, Monday through Friday, even though IRS provided telephone service 24 hours a day, 7 days a week. The effect on IRS' accuracy measure, had the measure been based on 24-hours-a-day, 7-days-a-week monitoring, would depend on the extent to which taxpayers called during the nonmonitored hours and the difference, if any, between the accuracy of assistors who answered calls during the monitored hours versus the accuracy of those who answered calls during the nonmonitored hours.

As discussed later in this report, IRS could not readily provide data on the number of calls received during the nonmonitored hours, and several IRS officials expressed concern about the skill level of assistors who worked during nonmonitored hours. According to cognizant IRS officials, IRS limited its monitoring to 8 hours a day, Monday through Friday, during the 1999 filing season because it did not have enough adequately trained staff to do more monitoring. That situation improved after the filing season, and, in May 1999, IRS began monitoring calls Monday through Saturday, 16 hours a day. IRS plans to continue that schedule during the 2000 filing season.

We also noted the following regarding IRS' sampling plan:

- The sampling plan includes a sample of the hours during which calls were monitored and then a sample of telephone calls on various subject matters within those hours. While the sample of hours is essentially random, the sample of telephone calls is a cluster sample within those hours. The effect of a cluster sample could impact the precision estimates by understating them, meaning that IRS' estimates could be less precise. After discussions with responsible IRS officials, they agreed to examine the effect of cluster sampling on the precision of IRS estimates.
- The sampling plan called for monitoring about 4,300 calls during the filing season; however, IRS monitored 2,960 calls—31 percent less than the plan. The planned sample size was based on assumptions about the number of incoming telephone calls per hour and estimates of the number of work hours available to monitor calls. IRS did not monitor as many calls as it had planned. There is concern that the use of assumptions and estimates that are not achieved may weaken the precision of the question the monitoring was intended to answer—how accurate are the responses to taxpayers' questions.

Taxpayers' Ability to Access IRS' Telephone System Declined

Each year, millions of taxpayers call IRS to ask questions about the tax law, inquire about their refunds, resolve account-related issues, and order forms. To assess how well it is serving these taxpayers, IRS measures the "level of access" and "level of service" provided by its telephone system.

Level of access indicates the extent to which taxpayers are able to access IRS' system (i.e., not get a busy signal). However, it does not take into account the extent to which taxpayers get into IRS' system but are put on hold and abandon their calls before an assistor comes on the line. In effect, level of access considers abandoned calls as successful call attempts. Level of service, on the other hand, considers abandoned calls as unsuccessful call attempts and, thus, measures the extent to which taxpayers are successful in reaching an assistor.

As noted in its budget request for fiscal year 2000, IRS has identified level of access as one of its Servicewide performance measures. As we discussed in our testimony on that budget request, we believe that level of service would be the more appropriate Servicewide measure because it indicates the extent to which taxpayers were successful in actually talking to someone in IRS.[3] The Department of the Treasury and IRS have recently expressed agreement with that position.

During the 1999 filing season, IRS reported its level of access at 69 percent and its level of service at 55 percent. These accomplishments were well below the 91-percent level of access and the 74-percent level of service IRS reported for the 1998 filing season. In the next chapter, we discuss the significant decline in IRS' telephone service and various factors that may have contributed to the decline.

Taxpayers Who Filed Paper Returns Did Not Always Receive Timely Refunds

One of IRS' customer service standards says that "If you file a complete and accurate tax return and you are due a refund, your refund will be issued in 6 weeks." In that regard, IRS, each year, reviews samples of individual income tax returns to measure its timeliness in issuing refunds. IRS takes separate samples of returns filed on paper and returns filed electronically.

In the past, IRS measured its timeliness in terms of the average number of days it took taxpayers to receive a refund. In 1998, for example, it determined that filers of paper returns received their refunds within an average of 34.1 days while filers of electronic returns received their refunds within an average of 15.1 days. In 1999, IRS used the same sampling methodology but changed the way it measured timeliness. Instead of computing average refund time, IRS computed the percentage of refunds processed within a certain time frame—40 days or less for paper returns and less than 21 days for electronic returns. We agree with this change in methodology. Showing a percentage of refunds that met IRS' timeliness goal seems more informative than just showing the average number of days it took for taxpayers to receive a refund.

As of the end of April 1999, IRS' refund test results showed that 84.7 percent of the refunds for individual income tax returns filed on paper had been processed within 40 days, and that 99.6 percent of the refunds for returns filed electronically had been processed in less than 21 days. The result for electronic returns exceeded IRS' goal for 1999 (98 percent) and IRS' performance in 1998 (98.3 percent). IRS did not set a goal for paper returns. However, IRS' reported accomplishment in 1999 (84.7 percent) was below its reported accomplishment in 1998 (88.1 percent).[4]

[3] GAO/T-GGD/AIMD-99-140.

[4] For analytical purposes, IRS recalculated its 1998 data for both paper and electronic returns using the 1999 method of computing timeliness.

Although IRS' accomplishment in 1999 was close to its accomplishment in 1998, about 15 percent of the taxpayers who had filed paper returns and had claimed a refund did not receive those refunds within 40 days. IRS could not tell us how many days beyond 40 these taxpayers had to wait before receiving their refunds, so the significance of IRS' untimeliness is unclear. Some of the untimeliness may be due to delays caused by taxpayers. For example, one official told us that some of the delays were because taxpayers who were entitled to the new child tax credit did not claim it. As discussed later in this report, IRS corrected those returns to include the credit, thus adding to its processing time and increasing the amount of the refund.

Because the samples for IRS' refund timeliness measure included returns with errors, such as math errors and errors associated with the child tax credit,[5] we asked IRS what its sample results showed for returns that were error free. We wanted to compare those results to IRS' customer service standard, which promises a refund within 6 weeks if a taxpayer files a complete and accurate return. IRS said that it did not have that information.

[5] Math errors are mistakes, such as calculation mistakes or invalid or missing SSNs, that are made by taxpayers and are detected by IRS validation systems.

IRS' Telephone Service Deteriorated

IRS took several steps in an attempt to improve telephone service in 1999. But, service did not improve; it deteriorated. Our discussions with IRS officials and analysis of relevant documentation indicated that the deterioration resulted from (1) unrealistic assumptions about the implementation and impact of IRS' changes and (2) other problems managing staff training and scheduling and implementing new technology.

Although we recognize the difficulty in anticipating how new initiatives will work and what their effect will be, the problems IRS encountered when considered together, raise significant questions about IRS' management of the telephone assistance program in 1999. We saw evidence of (1) assumptions and decisions that appeared to be based on inadequate data or that seemed to ignore existing data, (2) a failure to appropriately time the training of assistors and coordinate the timing of union negotiations that would directly affect productivity and the development of work schedules, (3) inadequate testing and contingency planning with respect to new call routing technology, and (4) the absence of data that management would need to adequately assess what happened in 1999 and provide a basis for making appropriate changes for the 2000 filing season.

IRS Made Several Changes in an Attempt to Improve Telephone Service in 1999

In an effort to improve its telephone service in 1999, IRS, among other things, extended its hours of operation and began managing its telephone operations centrally, which included implementation of new call routing technology.

Extended Hours of Operation

In 1998, IRS' customer service representatives were available 16 hours a day, 6 days a week (7 a.m. to 11 p.m., Monday through Saturday), to answer questions from taxpayers about the tax law, their accounts, or their refunds. For the 1999 filing season, IRS expanded that service to 24 hours a day, 7 days a week. IRS officials said that they believed that around-the-clock service would level the demand for service. For example, there has traditionally been heavier demand for telephone service on Mondays. IRS officials speculated that many taxpayers worked on their tax returns during the weekends and tended to call at the first opportunity for assistance on Monday. IRS hoped to reduce such peak demand times and distribute demand more evenly by making assistance available at any time.

Although IRS' customer service representatives were available all night and on weekends, it is uncertain to what extent they were able to assist taxpayers who called during those times. For example, some taxpayers who called to resolve account issues during the night and on weekends did not receive the assistance they needed because normal maintenance requirements caused IRS' main taxpayer data computer system, known as the Integrated Data Retrieval System (IDRS), to be unavailable, mainly in the early morning hours on weekdays, 8 hours on Saturdays, and all day on Sundays.

IRS offered around-the-clock service for account-related issues in 1999 even though it knew that IDRS would not always be available. IRS believed that assistors would be able to serve many taxpayers who called during IDRS downtime by accessing another information system that, according to IRS, was available virtually anytime. However, that other system was insufficient in many cases.[1] According to IRS' review of a sample of telephone calls to selected service centers on four Sundays during the filing season, 20 percent of the taxpayers were told to call back during the week when IDRS would be available.

Central Management and Call Routing

In 1999, IRS began managing its telephone operations centrally through its Customer Service Operations Center in Atlanta. As part of this centralized management, IRS developed its first national call schedule that projected the volume of calls—for each half-hour—at each of IRS' 24 call sites and the staff resources that would be needed to handle that volume.

As an integral part of its new approach to managing telephone service, IRS implemented a new customer service call router. The router was intended to lessen disparities in the level of service taxpayers receive by sending each call to the first available assistor nationwide who had the necessary skills to answer the taxpayer's question. To do this the router was to do use real-time information about (1) the nature of each taxpayer's question and (2) the availability of qualified telephone assistors nationwide. We provide more information on how the new call router was to work and did work later in this chapter.

Compared to 1998, Telephone Service Significantly Declined During the 1999 Filing Season

Although the various initiatives just discussed were intended to improve IRS' telephone service, that service declined significantly during the 1999 filing season. Compared to the 1998 filing season, as shown in table 3.1, level of access decreased from 91 percent to 69 percent and level of service decreased from 74 percent to 55 percent.

[1] The other information system was often insufficient because, unlike IDRS, it was a read-only system, which meant that assistors could view taxpayers' accounts but not make changes that might be necessary to resolve account issues.

Table 3.1: Data on IRS' Toll-Free Telephone Assistance for the 1998 and 1999 Filing Seasons

Filing season	Call attempts (millions)	Calls answered (millions)	Busy signals (millions)	Calls abandoned (millions)	Level of access	Level of service
1998	50.1	37.1	4.5	8.5	91%	74%
1999	65.3	35.6	20.4	9.3	69	55
Change[a]	**15.2**	**-1.5**	**15.9**	**0.7**	**-22%**	**-19%**

Note 1: This table combines data on six of IRS' toll-free telephone lines—tax law assistance, EIC/refund inquiry, account inquiry, forms ordering, Automated Collection System, and fraud hotline.

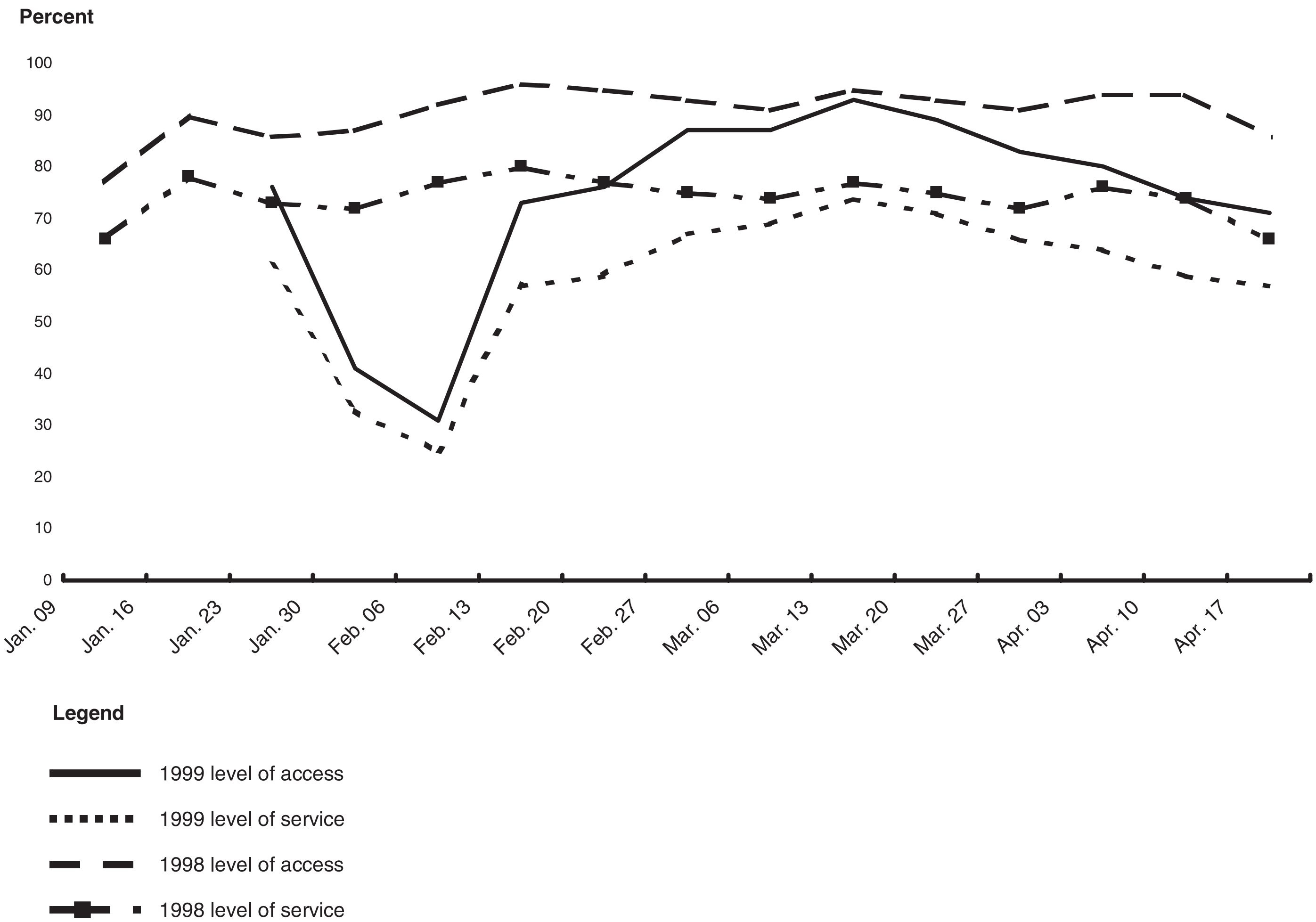
Note 2: Data are for January 1 through April 18, 1998, and January 1 through April 17, 1999.

[a]Change may not compute due to rounding.

Source: IRS data.

IRS' performance in providing telephone service during the 1999 filing season reached its lowest point during the week of February 6, 1999 (see fig. 3.1). During that week, level of access and level of service were 31 percent and 25 percent, respectively, as compared to 92 percent and 77 percent, respectively, for the same week in 1998. Accessibility improved after the initial weeks of the filing season and almost reached the levels achieved in 1998 during the week of March 13. However, unlike 1998, performance then moved steadily downward until the end of the filing season.

Figure 3.1: Weekly Comparison of IRS' Toll-Free Telephone Assistance—Level of Access and Level of Service—During the 1998 and 1999 Filing Seasons



Note: IRS did not start tracking 1999 data until the week ending January 23 because it did not have data that it considered reliable before then.

Source: IRS data.

Unrealistic Assumptions Led to the Decrease in Telephone Service

Our discussions with IRS officials and our review of available documentation indicated that the decrease in telephone service during the 1999 filing season resulted from unrealistic assumptions about the implementation and impact of IRS' changes. For example, IRS assumed that assistor productivity would increase, but it decreased; IRS assumed that around-the-clock service would level demand more than it did; and IRS assumed that work schedules were adequate, but they proved to be flawed. Among other things, IRS' assumptions led to discontinuance of a special procedure for handling complex tax law questions, which further contributed to the deterioration in telephone service.

Productivity Did Not Increase as Expected

In planning for the 1999 filing season, IRS originally projected a slight increase in productivity due to implementation of the new call router. IRS officials expected the call router to increase productivity by routing calls to the first available assistor qualified to answer the taxpayer's question, thereby preventing assistors from sitting idle. However, according to IRS officials and data, productivity actually decreased in 1999 as compared to 1998.

IRS officials cited several factors that might have led to lower-than-expected productivity, including the following:

- To staff its around-the-clock service, IRS offered experienced seasonal employees permanent positions if they agreed to work the off-hours.[2] According to some officials, the movement of these productive, skilled seasonal employees left a gap during the core hours when most taxpayers seek assistance—from 9 a.m. to 5 p.m. IRS filled the core hours with newly hired, less skilled seasonal employees. Other officials said that there was a skill gap during the off-hours, especially during the overnight shift. However, IRS only had to move staff at a few sites. Of IRS' 24 call sites, 2 answered taxpayer telephone calls during the overnight shift, and 5 regularly answered calls on Sundays.
- IRS discontinued use of a call management tool called "auto-available," which, as soon as a call was completed, automatically routed another telephone call to the assistor. During the 1999 filing season, pursuant to an agreement with the National Treasury Employees Union (NTEU), assistors were placed in a waiting status after each call and remained in that status until they pressed a keyboard button that put them in an available status.[3] IRS officials said that, by definition, this practice added some amount of time to each call, causing other calls to receive busy signals and, thus, lowering accessibility.
- Changes that required new procedures, new responsibilities, and training for assistors affected productivity. For example, the IRS Restructuring and Reform Act of 1998 required that assistors provide their name and

[2] Generally, IRS considers the telephone assistance "off-hours" to be the time periods outside of the "core hours" when most taxpayers call IRS for help. IRS officials said that the core hours are 9 a.m. to 5 p.m., Monday through Friday.

[3] The waiting status, known as wrap time, was designed to allow assistors to make themselves unavailable after certain calls that needed "wrap up," such as calls that required that documentation be completed or calls that were particularly complex or stressful and required that the assistor take a momentary mental break.

employee identification number at the beginning of each call, which added a little time to each call. Also, according to a cognizant official, the need to train all staff on various provisions of the IRS Restructuring and Reform Act of 1998 and train those assistors who, in accordance with the NTEU agreement, had accepted broader responsibilities in exchange for increased pay grade led to a shortage of assistors who were available to answer the telephone during the early part of the filing season.

Demand Leveling Did Not Occur as Expected

IRS expected that around-the-clock service would level demand by enabling some taxpayers to call during off-hours, thereby reducing the number of calls coming in during peak times. However, according to cognizant officials, IRS' expectations about leveling demand did not fully materialize. As a result, IRS underestimated the number of assistors needed to answer incoming call volume during the hours that most taxpayers called and, according to one official, off-hours staff often sat in available status with no call to answer.

IRS did not have data readily available to determine the volume of calls received during its expanded hours of telephone service, even though such data would seem important in assessing the impact of around-the-clock telephone service and in developing workload assumptions and staffing plans for the 2000 filing season. After we requested these data, IRS compiled information on the number of calls received on Sundays but was unable to provide data on the number of calls it received during the overnight hours of 11 p.m. to 7 a.m. The information IRS compiled showed that about 2.3 million calls were received on Sundays over IRS' three main tax law and account telephone lines—about 4 percent of the 57.3 million calls received on those three lines during the filing season.

IRS' expectation that around-the-clock service would level demand and reduce peak demand times may have been unrealistic considering its experience in 1998. According to IRS officials in 1998, IRS first attempted to level demand by extending its service to 6 days a week, 16 hours a day. The expected leveling did not occur, and IRS officials told us, at that time, that it would probably take 4 to 5 years for taxpayers to become familiar with the extended hours of service available.

Call Site Work Schedules Not Adequate

IRS' original staffing plans were done on the assumption that IRS would have the authority that it had last year to direct staff to work other than their regular work schedule. According to IRS, the new agreement with NTEU limited the extent to which IRS could change an assistor's regular work schedule. The agreement stipulates that IRS must first seek volunteers before requiring assistors to change their work hours to meet staffing shortages at a site. A cognizant official said that IRS had to quickly redo work schedules to accommodate the volunteer provision, which resulted in significant staff shortages in relation to projected call volumes and, thus, schedules that were not as sound as they should have been.

The timing of the completion of the work schedules also presented a problem. IRS' negotiations with NTEU took longer than IRS expected, and the agreement was not completed until October 1998. IRS officials said the schedules were not made available until December 1998, just a few weeks before the beginning of the filing season. In responding to a survey of IRS call sites by the Treasury Inspector General for Tax Administration, several call site officials said that the timing of the schedules did not allow adequate time to hire and train staff, and that, during the filing season, schedules were changed frequently with little advance notice and did not allow for adequate planning.

Discontinued Voice Messaging Adversely Affected Telephone Service

One result of IRS' unrealistic assumptions was a decision, before the filing season began, to discontinue a procedure that IRS had used in 1997 and 1998 to handle the more complex calls from taxpayers. Because discontinuance of that procedure had a negative effect on telephone service, IRS reinstated the procedure after the start of the filing season.

As we discussed in our 1997 filing season report, IRS studied the topic and length of taxpayers' telephone calls and found that certain topics resulted in assistors' spending significantly longer time per call.[4] As a result, IRS revised its procedures so that, in 1997 and 1998, callers with questions in complex areas were automatically connected to a voice messaging system. Taxpayers were asked to leave their name, telephone number, and address and the best time to reach them so that their call could be returned within 2 to 3 business days. IRS' Examination function supported the Customer Service function by detailing staff to return taxpayer calls from the voice messaging system. According to IRS, routing these potentially lengthy, complex calls to a recording freed up assistors to handle shorter, less complex calls.

According to cognizant IRS officials, IRS decided not to use voice messaging for the 1999 filing season because IRS believed that (1) requiring taxpayers to leave messages and then calling them back days later was not the best possible customer service and (2) there would be adequate customer service staff to handle the expected volume of calls as the calls came in. IRS based the expectation that it would have adequate

[4] Tax Administration: IRS' 1997 Tax Filing Season (GAO/GGD-98-33, Dec. 29, 1997).

staff on the assumptions that (1) productivity would increase through improved call routing and (2) demand would be leveled through around-the-clock service. However, IRS' expectations about productivity and demand leveling were not realized, as previously discussed. Therefore, attempting to answer these more complex, lengthy calls with "live" assistors contributed to longer on-hold times and busy signals for other taxpayers.

A cognizant official said that the decision to discontinue voice messaging in 1999 was a mistake, considering that these complex calls take longer to resolve. In response to longer on-hold times for assistance and excessive busy signals, IRS reestablished voice messaging in mid-February. According to a cognizant official, IRS plans to continue using voice messaging in 2000.

Limited Use of New Call Router During Parts of the 1999 Filing Season

IRS' new call routing equipment was designed to route a taxpayer's telephone call where it could most quickly be answered on the basis of the availability of an assistor and the type of question. However, at various times, IRS had to limit its use of the call router because of various problems, such as a lack of standardized programming among call site computers. Also, at the time we completed our audit work, IRS had not reviewed the performance of the call router and, therefore, could not determine if the desired results were achieved or what impact the equipment had on taxpayer access to the telephone system.

Before the 1999 filing season, calls were routed to a call site by area code or on the basis of the percentage of the total available staff the site had scheduled to work (known as the staff allocation-based routing system). These methods could have caused service disparities for taxpayers. Calls routed to a busy site might have had long on-hold times or received busy signals, while another site might have had low demand and provided immediate assistance. Calls could not easily be rerouted. Historically, IRS call sites operated with a great degree of independence; there were no comprehensive, uniform standards as to how taxpayer calls would be handled. Therefore, taxpayers could experience a different quality of service depending on where their calls were answered.

IRS' new call router was designed to remedy any disparities by performing "intelligent" routing in two stages. First-stage intelligent routing was to send the call to the site that, on the basis of assistor availability and expected on-hold times, appeared to be the site that would most quickly answer the taxpayer's call. Second-stage intelligent routing was to be done after the call had been routed to a site and the taxpayer had responded to

IRS' automated telephone service menu, thus indicating the nature of his or her call. If an assistor who was qualified to handle that type of call was not immediately available at that site, the call router was to query real-time accessibility data on computers at all of the call sites. The call would then be routed to the qualified assistor who, on the basis of accessibility data, would be able to answer the call most quickly no matter where the assistor was located.

However, at various times during the filing season, problems kept IRS from using intelligent routing. During the first weeks of the 1999 filing season, IRS only did limited second-stage intelligent routing as it tested the system and corrected errors in site computer programming. According to IRS officials, programming at the call sites had to be standardized to accurately route calls. Without correct programming, a call could be routed to a site that actually did not have an assistor available for that type of call. IRS officials said that the programming errors had not surfaced during pre-filing season testing of the system because the volume of calls was not great enough to reveal the errors. IRS corrected these errors and began using second-stage intelligent routing regularly on February 17, 1999.

IRS also had to limit its use of first-stage intelligent routing during the 1999 filing season. In response to the low accessibility rate, IRS began using a feature known as selected expanded access (SEA) in early February. When the queue for speaking to an assistor is full, SEA gives taxpayers the option to access automated, interactive telephone services and TeleTax;[5] otherwise, the taxpayers would have received a busy signal. Because IRS did not expect to use SEA, the call router had not been programmed with the capability to centrally determine when a taxpayer should be given access to the automated services. The use of SEA resulted in disparities in access when intelligent routing was used because the programming for sites was not uniform as to when SEA was to be offered. Therefore, IRS discontinued first-stage intelligent routing after it started using SEA. Until the router could be programmed for SEA, IRS switched to the staff allocation-based routing system it used in the 1998 filing season. Once a call was routed to a site under that system, second-stage intelligent routing could still be used to send the call to a specific assistor.

IRS staff monitored accessibility data among sites and rerouted calls in case of disparities among sites. After the call router was reprogrammed and tested for SEA, IRS reinstated first-stage intelligent routing on its toll-free line for tax law questions on April 9, 1999. SEA programming for the

[5] TeleTax is an automated system that provides recorded information on about 150 tax topics.

account and refund lines was completed, tested, and implemented soon after the April 15 filing date.

IRS officials had varying views on the impact of the call router problems on accessibility. One official said that some of the early problems with the router decreased accessibility because site computer programming errors caused calls to be sent to sites that did not have assistors available and this caused increased wait times. Another official maintained that routing worked properly at this stage. Still another official characterized the problems with the router as having caused IRS to miss opportunities to improve access, rather than actually causing decreased accessibility.

IRS did not do a systematic review of the router's performance in 1999. According to the IRS project manager, multiple changes to IRS' telephone operations in 1999 made it impossible to isolate the impact of the router on such things as accessibility and productivity. Absent such information, IRS has no reliable basis for determining whether the router was effective or how, if at all, to improve its effectiveness in 2000.

IRS Expanded the Availability of Walk-In Services but Had Only Limited Ability to Measure Results

Staff at IRS' walk-in sites answer tax law questions, distribute tax forms and publications, and help taxpayers prepare their returns and resolve their account issues. As used in this report, the term “walk-in sites” includes IRS' walk-in offices that are generally open all year and temporary locations that IRS sets up during the filing season. IRS data show that walk-in sites served about 6.2 million taxpayers between January 1 and May 1, 1999—a slight increase over the number served during the same period in 1998.

Overall, IRS' walk-in assistance efforts during the 1999 filing season were positive. For example, IRS enhanced the availability of services at its walk-in offices and expanded the availability of assistance to taxpayers who did not have convenient access to a walk-in office. Taxpayers who completed a customer satisfaction survey as the result of a visit to a walk-in site scored their overall satisfaction with an average of 6.44 on a 7-point scale. However, while IRS made progress in assessing customer satisfaction with walk-in services in 1999, it made little progress in measuring the quality and timeliness of those services.

IRS Enhanced the Availability of Services at Its Walk-In Offices

During the 1999 filing season, IRS enhanced the availability of services at its walk-in offices by increasing the number of offices, expanding the availability of Saturday service, and providing targeted EIC assistance earlier than it did in 1998.

According to IRS, 236 walk-in offices were open in IRS' 33 districts during the 1999 filing season as compared to 178 offices during the 1998 filing season. Also, according to IRS, most walk-in offices were open on each Saturday during the 1999 filing season, which was not the case in 1998. In that regard, of the 236 walk-in offices that were open in 1999, 182 provided 4 hours of service on each Saturday during the filing season, and the other 54 provided service on selected Saturdays. By comparison, each of the 178 offices that were open during the 1998 filing season provided service on only 6 Saturdays. According to IRS, walk-in offices served 141,725 taxpayers on Saturdays during the 1999 filing season as compared to 82,722 taxpayers served on Saturdays during the 1998 filing season.

As in 1998, IRS provided targeted assistance to potential EIC claimants by scheduling EIC Awareness Days at many walk-in offices. However, unlike in 1998, IRS scheduled these days early in the 1999 filing season. IRS scheduled the EIC Awareness Days for the first six Saturdays of the 1999 filing season as compared to mid-March through mid-April in 1998. This scheduling change was consistent with our July 1998 recommendation[1] that customer service efforts aimed at EIC claimants be made available early in the filing season.

IRS Expanded Nontraditional Sources of Taxpayer Service

During the 1999 filing season, IRS took steps to expand the availability of assistance to taxpayers who could not easily reach a walk-in office. Those steps included a greater use of alternative ways to provide walk-in service and an effort to improve the availability of tax forms in certain parts of the country.

For the 1999 filing season, IRS' National Office encouraged districts to make more use of nontraditional ways, such as mobile vans and kiosks at retail locations, to provide walk-in service, particularly on Saturdays. The National Office stated that although these initiatives would benefit all IRS customers, they would be of particular value to individuals in rural areas.

In response to that direction, local IRS offices used various nontraditional outlets, such as shopping malls, community centers, the offices of state taxing authorities, grocery stores, copy centers, and newspaper inserts to help prepare returns, distribute tax forms and publications, and provide other types of taxpayer assistance in 1999. Additionally, some districts in three regions used mobile vans that went to less-populated, rural locations where taxpayers did not have easy access to a walk-in site. For example, vans in the Georgia District went to locales that were more than 40 miles from the nearest IRS office.

Another effort to expand taxpayer service targeted underserved counties. In 1998, IRS' National Office conducted a study in which it identified 478 counties that it considered underserved, at least concerning the availability of forms. IRS believes that additional forms distribution outlets in these counties may be advantageous. Although districts were encouraged to conduct outreach efforts in any underserved counties in their areas, the districts were not required to report the results of any such efforts to the National Office. In that regard, IRS did not have a formal national outreach program for the underserved counties during the 1999 filing season. Instead, according to a cognizant IRS official, the National Office deferred any nationally coordinated outreach efforts until 2000. Therefore, the National Office had no way of monitoring and determining the success or failure of outreach efforts in 1999.

[1] Earned Income Credit: IRS' Tax Year 1994 Compliance Study and Recent Efforts to Reduce Noncompliance (GAO/GGD-98-150, July 28, 1998).

Despite the lack of national monitoring, some IRS districts, on their own initiative, provided the National Office with data on outlets that they had established in underserved counties in 1999. According to officials at those districts, they established community-based outlets in about 50 underserved counties in 1999.

Except for Measuring Customer Satisfaction, IRS Has Not Made Much Progress in Measuring the Performance of Walk-In Sites

According to IRS' business vision and its walk-in site mission statement, walk-in operations are to provide accessible, high-quality service to the public; reduce taxpayer burden; and ensure compliance with tax laws. IRS recognizes that providing accurate information and serving customers expeditiously and professionally are critical to the success of its walk-in program. However, in our reports on IRS' 1998 filing season[2] and IRS' efforts to measure customer service,[3] we discussed the lack of meaningful nationwide data for assessing the performance of IRS' walk-in sites in terms of quality, timeliness, and taxpayer satisfaction.[4] Our review of the 1999 filing season indicated that IRS had made progress in assessing taxpayer satisfaction with walk-in services but had made little progress in instituting key performance indicators for quality and timeliness.

In response to an IRS Internal Audit report issued in 1997,[5] IRS implemented a customer satisfaction survey at its walk-in sites during the 1998 filing season. However, due to printing and distribution problems, the survey for the 1998 filing season was not started until late in the filing season (about mid-March) and, therefore, did not provide a complete assessment of taxpayers' satisfaction with the walk-in program. For 1999, IRS added questions to the survey, such as a question about how long it took the taxpayer to receive service, and conducted the survey at all walk-in sites during the entire filing season.

Results of the walk-in surveys distributed during the first 3 months of the 1999 filing season, as summarized by IRS' contractor, showed an average

[2] Tax Administration: IRS' 1998 Filing Season (GAO/GGD-99-21, Dec. 31, 1998).

[3] Tax Administration: IRS Faces Challenges in Measuring Customer Service (GAO/GGD-98-59, Feb. 23, 1998).

[4] We recognize that a complete evaluation of the walk-in program would involve other factors, such as the comparative costs and benefits of (1) answering tax law questions or resolving account issues at walk-in sites versus over the telephone, (2) return preparation at walk-in sites versus return preparation by community volunteers, and (3) forms distribution at walk-in sites versus community-based locations. An analysis of costs and benefits for these various services was beyond the scope of our review of the 1999 filing season.

[5] Taxpayer Walk-In Program for the 1997 Filing Season, IRS Internal Audit, Reference No. 081004, December 22, 1997.

overall satisfaction of 6.44 on a 7-point scale.[6] The contractor's summary also showed that

- 89 percent of the walk-in customers who completed the surveys indicated a high degree of satisfaction with the services obtained at IRS' walk-in sites;
- none of the 10 areas customers were asked to rate (such as convenience of office hours, employee courtesy, and promptness of service) received a score below 6.06;
- customers who came into an IRS site for help in preparing their tax returns gave the highest satisfaction ratings, while customers who requested a form or publication gave the lowest; and
- taxpayers whose wait times were less than 15 minutes gave higher satisfaction ratings than customers who waited longer.

In response to findings in the 1997 Internal Audit report and an IRS Walk-In Steering Committee report issued in 1998,[7] IRS' National Office stated that the walk-in program's quality assurance process had to be improved. The National Office said that IRS would be assessing quality at its walk-in offices—including the accuracy of responses to taxpayers' questions and the professional treatment of customers—during the 1999 filing season through quality reviews and filing season readiness reviews. However, quality reviews were not done and the National Office did not provide specific guidance on what should be examined during readiness reviews.

Quality reviews (during which, regional staff who are unknown to personnel at the walk-in office pose as taxpayers) were scheduled to begin in fiscal year 1999 and were designed to examine the implementation of standardized services, office environment, proper use of equipment, and accuracy of responses at walk-in offices. However, early in the 1999 filing season, IRS decided not to do quality reviews because, according to IRS, it did not have the necessary time or resources to implement the program.

Filing-season readiness reviews were conducted by IRS regional officials before the start of the filing season. These reviews are designed to determine if a walk-in office is prepared for the filing season. IRS' National Office provided regional offices with some overall management guidance but that guidance did not include specific requirements on how the site

[6] According to the contractor, 4 percent of the customers visiting an IRS office during the 3-month period completed a questionnaire, for a margin of error of about 1 percent.

[7] Walk-In Steering Committee Concept of Operations, IRS Walk-In Steering Committee, May 28, 1998.

was to assess the quality of its assistance to taxpayers. Additionally, the National Office did not require that regional offices communicate the results of filing season readiness reviews; any identified problems were to be handled within the region.

Regarding timeliness, the National Office established taxpayer wait-time goals at walk-in sites of 30 minutes for return preparation and 15 minutes for all other forms of assistance for both the 1998 and 1999 filing seasons.[8] However, IRS did not have a complete mechanism for monitoring performance. For example, the National Office did not require the regions to report wait times, and most sites had to manually track wait times, thus making the data more prone to error.

IRS has an automated system, known as Q-Matic, that is designed to enable accurate tracking of customer wait times. That system was operational at 33 of IRS' walk-in sites during the 1999 filing season as compared to 8 sites during the 1998 filing season. As customers arrive at walk-in sites with the Q-Matic system, they are to take or are to be given a numbered ticket from the Q-Matic ticket printer. The ticket reflects the estimated wait time for the service, and the system will automatically "call" the customer when it is his or her turn. The system records the time that a customer received a ticket and the time that an assistor started helping the customer.

Most of IRS sites did not have the Q-Matic system in 1999. Some of those sites used a manual system, whereby a greeter or receptionist was to record on a taxpayer contact card the time that the taxpayer arrived and an assistor was to record on the same card the time that he/she started to help the taxpayer. Other non-Q-Matic sites relied on greeters or taxpayers to fill out a sign-in sheet. According to a cognizant IRS official, the non-Q-Matic methods of tracking wait times are more prone to error because they are manual. Because complete and reliable data are not available, IRS cannot determine if the walk-in program met the wait-time goals of 15 and 30 minutes during the 1999 filing season.

[8] We did not assess the appropriateness of these goals.

Use of Other Sources of Taxpayer Assistance Increased, but Some Problems Existed

In addition to the help that is available to taxpayers over the telephone and at IRS walk-in sites, taxpayers can receive assistance from various other IRS or IRS-sponsored sources. Those sources include IRS' World Wide Web site on the Internet; IRS-sponsored volunteer tax return preparation sites; IRS' Tax-Fax program, through which taxpayers can order and receive forms and instructions via a fax machine; and a corporate partnership program, through which employees of participating corporations can obtain copies of IRS forms and publications at their work sites. Table 5.1 shows that use of each of these sources increased during the 1999 filing season as compared to 1998.

Table 5.1: Use of Other IRS and IRS-Sponsored Taxpayer Assistance

Source of assistance	1999 filing season[a]	1998 filing season[a]	Percentage change: 1998 to 1999
World Wide Web site			
Home page hits[b]	793.7 million	370.3 million	114%
File downloads	57.0 million	26.8 million	113
E-mail questions received[c]	155,000	82,000	89
Volunteer tax return preparation sites			
Number of sites	7,384	5,783	28
Taxpayers assisted	1.9 million	1.7 million	11[d]
Tax-Fax program			
Successful faxes	970,379	906,011	7
Corporate partnership program			
Participating corporations	2,149	400	437

[a]Data are for January 1 through April 30, 1999, and January 1 through April 30, 1998, unless otherwise indicated.

[b]Data are for January 1 through May 2, 1999, and January 1 through May 3, 1998.

[c]Data are for January 1 through April 15, 1999, and January 1 through April 15, 1998.

[d]Percentage change does not compute due to rounding.

Source: GAO analysis of IRS data.

As table 5.1 indicates, the most used of these services was IRS' Web site. Despite the general success of that site, including a favorable assessment by an outside organization, some problems existed with the timeliness and quality of IRS' responses to questions received from taxpayers via electronic mail (E-mail). Also, although the number of IRS-sponsored volunteer sites increased, as did the number of taxpayers assisted at those sites, many sites reported problems with inadequate staffing, funding, software, and hardware that affected their ability to function effectively.

Significant Increase in Use of IRS' Web Site, but Some Problems With Timeliness and Accuracy of E-mail Responses

Among other things, IRS' Web site offers taxpayers hundreds of tax forms and publications for immediate downloading as well as the latest tax information, answers to the most frequently asked questions, details about electronic filing, and special features on items such as the child tax credit. The Web site also offers taxpayers the ability to submit tax law or procedural questions to IRS via E-mail. As shown in table 5.1, taxpayers' use of IRS' Web site during the 1999 filing season increased significantly when compared to 1998. The number of "hits" increased by 114 percent, the number of files downloaded increased by 113 percent, and the number of E-mail questions received increased by 89 percent.

An independent rating of service on IRS' Web site on April 15, 1999, stated that the site delivered "remarkable" quality of service on that day. The rating showed that the home page was delivered in an average of 6.9 seconds, with an availability rate of 97.4 percent. The rating showed that the level of service also improved over last year. During the busiest half-hour on April 15, 1999, the average performance time was 17 seconds compared to 23.2 seconds during the peak half-hour on April 15, 1998.

Taxpayers who access IRS' Web site may submit their tax law or procedural questions to IRS for a response via E-mail. This service began as a pilot at the Nashville Customer Service Site during the 1994 and 1995 filing seasons. In March 1996, it became a year-round project in Nashville. Four additional sites were added in 1998 and were on-line by the 1999 filing season. IRS' goal during the 1999 filing season was to respond to E-mail questions within 2 business days. However, during the 1999 filing season, IRS' average response time was 4.11 calendar days. Although IRS' goal was stated in business days, IRS' information system tracked response times in calendar days due to a coding problem. Nevertheless, IRS decided to use the calendar day data to assess its performance.

According to IRS officials, the following factors contributed to longer response times:

- The questions customer service representatives received via E-mail were more complex than those received over the telephone. This posed a particular problem for customer service representatives who, because of the program's expansion in 1999, were responding to E-mail questions for the first time and did not have the benefit of past experience. Besides response time, complexity also affected response accuracy. In that regard, IRS tests showed that only 65 percent of the responses to E-mail questions during the 1999 filing season were accurate.

- Customer service representatives who answered the E-mail questions were also responsible for answering telephone questions. In that regard, the increased telephone demand strained the sections' resources so that they were unable to manage the E-mail inventory simultaneously.
- The volume of E-mail questions increased to the point that they had to borrow personnel from IRS' Compliance function to help provide timely responses. As previously noted, the number of E-mail questions that IRS received between January 1 and April 15, 1999, increased 89 percent when compared to the same time period in 1998.

All E-mail customers were given the opportunity to respond to a customer satisfaction survey and provide general comments indicating their satisfaction with the E-mail service. According to IRS data, 3,571 taxpayers responded to the survey between January 1 and April 30, 1999 (representing about 2.2 percent of the total E-mail questions received). Of the taxpayers who responded to the survey, 94 percent said that they were satisfied with the time it took to get a response to their E-mail question. What is unknown, however, is how long it took the respondents to the survey to get answers to their questions. It is possible that those who were satisfied with the response time received their response within 2 business days. Additionally, 79 percent of the respondents said that the response they received via E-mail answered their question.

According to a cognizant official, IRS will keep its goal of 2 business days for responding to E-mail questions for the 2000 filing season and will add four new sites to respond to those questions. According to the official, because there is more historical data on the E-mail project, there should be better projections of E-mail volumes and the number of cases assistors can handle during the 2000 filing season. The official added that better projections would result in better work plans, which should better enable IRS to meet its response-time goal by better ensuring that an adequate number of staff are available to meet the demand for service. The official also said that IRS is planning to correct the coding problem before the start of the 2000 filing season so that its system will track response times in business days, which would enable IRS to measure actual response times against its goal. In regard to improving the quality of the E-mail responses, the official said that IRS would be providing assistors with additional training on the six E-mail topics with the highest error rates before the start of the 2000 filing season.

Availability and Use of Volunteer Tax Return Preparation Services Increased; Some Problems Were Encountered

IRS sponsors volunteer tax return preparation through its Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. VITA offers free tax help to persons with low to limited income, persons who are non-English speaking, and persons with disabilities. TCE offers free tax help to elderly taxpayers. IRS reported that 7,384 VITA and TCE sites had assisted 1,907,151 taxpayers during the 1999 filing season. Those numbers compared favorably to the 1,718,995 taxpayers assisted at 5,783 sites last year. However, according to IRS reports, (1) sites in three IRS regions reported a lack of staff to adequately implement the VITA program, (2) sites in three regions reported problems with software and hardware, and (3) sites in two regions reported funding and equipment problems that hampered their ability to file returns electronically. According to IRS officials, these problems affected the sites' ability to serve taxpayers effectively.

IRS Continued to Stop Some Improper EIC Payments; Opportunities Exist to Streamline the EIC Recertification Process

Congress and IRS have long been concerned about noncompliance[1] with the eligibility requirements for the EIC. During the past several filing seasons, IRS implemented a number of efforts aimed at reducing that noncompliance. Generally speaking, those efforts involved (1) the denial of EIC claims that were not accompanied by valid SSNs[2] and (2) in-depth reviews of EIC claims that met certain criteria. In 1999, IRS continued those efforts and stopped hundreds of millions of dollars in erroneous EIC payments.

IRS also implemented new procedures in 1999, as mandated by TRA97, that require certain taxpayers to recertify their eligibility for the EIC before IRS approves their claim.[3] According to IRS data, many taxpayers who had an EIC claim denied for tax year 1997 and were required to recertify did not claim the EIC on their tax year 1998 returns (i.e., the returns filed in 1999), thus indicating that the procedures may have helped reduce the number of improper EIC claims. What is unclear is how many of those taxpayers, if any, were entitled to the EIC but either could not understand the recertification process or found it too burdensome. In that regard, our review identified certain opportunities to streamline the recertification process and thus make it less burdensome to taxpayers and IRS. Our review also found that IRS service centers were not consistently following national guidelines for recertification, which could result in disparate treatment of taxpayers.

IRS Continued to Stop Some Improper EIC Payments Through the Use of Math Error Authority

As IRS processes individual returns, it looks for computational errors made by taxpayers or their representatives in preparing the returns. When such errors are identified, IRS can automatically adjust the return through the use of its math error authority. During the first 6 months of 1999, according to data provided by IRS, it stopped about $412 million in erroneous EIC payments as a result of its math error program.

Many of the EIC-related math errors corrected by IRS in 1999 involved invalid SSNs. In 1996, Congress authorized IRS to treat invalid SSNs as math errors, similar to the way it had historically handled computational

[1] The term “noncompliance” includes erroneous EIC claims caused by mistakes, confusion, negligence, and fraud.

[2] IRS considers an SSN invalid if it is missing from the return or if the SSN and associated name on the return do not match data in the Social Security Administration’s records.

[3] The recertification procedures require those taxpayers who were denied the EIC through an audit beginning with tax year 1997 to provide evidence of eligibility for the EIC before they can claim the credit in subsequent years. Although taxpayers claiming the EIC must meet certain eligibility criteria, new claimants or claimants who did not have the credit denied in tax year 1997 are not required to submit certification evidence.

mistakes. Thus, IRS has the authority to (1) automatically disallow, through its math error program, any deductions and credits, such as the EIC, associated with an invalid SSN and (2) make appropriate adjustments to any refund that the taxpayer might be claiming.

As shown in table 6.1, the number of taxpayers claiming the EIC in 1999 dropped 1.9 percent from 1998, while the number of EIC-related math errors involving SSNs declined by more than 27 percent.

Table 6.1: EIC Claims and Math Errors During 1998 and 1999

EIC claims and math errors	1/1/98 to 8/29/98	1/1/99 to 8/28/99	Percentage change
Number of taxpayers claiming EIC	19,393,098	19,016,474	-1.9%
EIC math errors as a result of an invalid SSN	600,676	435,991	-27.4
Other EIC math errors[a]	1,391,703	1,226,911	-11.8

[a]Other EIC math errors include errors in figuring the EIC and in computing earned income. To be comparable with data for 1998, the number for 1999 excludes 217,913 errors in two categories that were not considered math errors in 1998.

Source: IRS data.

The decrease in the number of EIC math errors involving invalid SSNs may indicate that fewer taxpayers are attempting to claim an EIC to which they are not entitled. It may also reflect that prior IRS efforts to alert taxpayers who had used invalid SSNs caused those taxpayers to correct the problem before filing their next year's return.

IRS Targeted Certain Types of EIC Claims for In-Depth Review

Other types of EIC noncompliance are not as easy to identify as math errors. Those types can be detected only through an audit. In 1999, IRS continued to target for in-depth review certain types of EIC claims that IRS had identified as the main sources of EIC noncompliance.[4] These targeted EIC claims include those that involve (1) the use of a qualifying child's SSN on multiple returns for the same tax year, (2) erroneous claims of head-of-household filing status, and (3) misreported income. Taxpayers whose returns were identified for inclusion in one of these programs were to be audited to determine if their EIC claims were valid.

For fiscal year 1999, IRS anticipated a potential caseload of 421,393 cases involving multiple uses of the same qualifying child's SSN. However, the actual caseload was 344,572 because taxpayers had either filed their tax year 1998 returns without the questionable SSN (57,024) or did not file any tax year 1998 return (19,797). As of August 28, 1999, IRS had completed

[4] Study of [EIC] Filers for Tax Year 1994, IRS, April 1997.

audits on 204,912 cases (out of the 344,572) and had recommended[5] that $379.6 million in erroneous claims not be paid.

Although filing status per se does not affect either EIC eligibility or amount (except that married taxpayers filing separate returns are ineligible for the EIC), IRS' April 1997 study had shown that erroneous filings as head of household often occurred with an EIC overclaim. From October 1, 1998, to August 28, 1999, IRS had completed 256,365 audits examining taxpayers' head-of-household status and recommended that $517.1 million in erroneous claims not be paid.

IRS' misreported income projects focus on EIC claims that (1) appear to be inflated by the inclusion of nonqualifying income, such as investment income, in the computation of earned income or (2) involve earned income, such as self-employment income, that can be used to qualify for the EIC but cannot be verified through a third party. From October 1, 1998, to August 28, 1999, IRS had completed audits of 13,829 returns in these projects and recommended that $7.7 million in erroneous claims not be paid.

EIC Recertification Process Further Deterred Improper Claims but May Have Confused Taxpayers and Unnecessarily Delayed Return Processing

TRA97 requires that taxpayers who were denied the EIC through IRS' deficiency procedures (i.e., as the result of an audit) must recertify their eligibility before they can claim the EIC again. This provision became effective beginning with tax year 1997 returns filed in 1998. As a result, taxpayers who were denied the EIC on their tax year 1997 returns were required to recertify with their tax year 1998 return if they claimed the EIC on that return. TRA97 also has provisions that are intended to prevent a taxpayer from receiving an EIC for (1) the next 10 years if IRS, as a result of its audit, determined that the taxpayer had fraudulently claimed the credit or (2) the next 2 years if IRS determined that the taxpayer negligently claimed the credit. After the 10 or 2 years expire, the taxpayer has to recertify the next time he or she claims the EIC. IRS has a specific indicator that it can put on its master file of taxpayer accounts to identify taxpayers who are required to recertify. These recertification requirements appear to have further deterred improper claims, but the process may confuse taxpayers and unnecessarily delay the processing of their returns.

[5] Some of the unpaid claims mentioned here and elsewhere in this section might eventually be paid if the taxpayers overturn IRS' findings on appeal.

The Recertification Process

To recertify for the EIC, IRS requires that taxpayers attach a Form 8862 (Information to Claim Earned Income Credit After Disallowance) to the next tax return they file that includes an EIC claim. If a taxpayer claims the EIC without attaching a Form 8862, IRS is authorized to disallow the claim as a math error.

According to IRS guidelines, service centers were to review the returns of all "required to recertify" taxpayers who claimed the EIC on their tax year 1998 returns and filed a Form 8862. If a "required to recertify" taxpayer claimed either the same EIC-qualifying child who was disallowed on the tax year 1997 return or claimed a new EIC-qualifying child, the return was to be examined. The taxpayer's entire refund was to be held until IRS determined whether the taxpayer was entitled to the EIC.[6] If the taxpayer did not claim the disallowed EIC-qualifying child and did not claim a new EIC-qualifying child, an audit was not required, and the taxpayer's refund was to be released.

While examining the returns of taxpayers who are required to recertify, IRS notifies them that their refunds are being withheld pending a review of the EIC claim and that certain documentation is required. The documentation IRS expects from taxpayers includes copies of birth certificates and Social Security cards; documents, such as school records, to verify that the child lived with the taxpayer; and documents, such as canceled checks for household expenses or child support payments, to verify that the taxpayer supported the child.

If a taxpayer provides the necessary documents and those documents support the taxpayer's EIC claim, the claim is to be allowed and the taxpayer would not have to be recertified again for future EICs. Otherwise, the taxpayer's claim is to be denied.

Recertification Results

As of January 30, 1999, IRS had identified 197,625 taxpayers who were denied the EIC on their tax year 1997 returns (the returns filed in 1998) through IRS' deficiency procedures.[7] These taxpayers would have been required to submit a Form 8862 with their tax year 1998 return if that return included an EIC claim.

As of August 28, 1999, according to IRS, of the 197,625 taxpayers, (1) 23,617 filed tax year 1998 returns claiming the EIC and attached a Form

[6] According to an IRS official, IRS' system cannot automatically separate out and hold only the portion of the refund that relates to the EIC claim.

[7] According to IRS, none of these cases involved a finding of fraud or negligence.

8862 and (2) 63,372 filed returns with EIC claims but did not attach a Form 8862.[8] IRS, using its math error authority, denied the 63,372 claims that were not accompanied by a Form 8862. Of the taxpayers whose claims were denied, 6,992 subsequently submitted a Form 8862 after receiving IRS' math error notice.

IRS officials believe that the low number of taxpayers trying to get recertified in 1999 may indicate that many of the taxpayers who were disallowed the EIC in 1998 were not eligible for the credit.

Problems With the Recertification Process

Although it is too early to assess the effectiveness of IRS' recertification process, we did identify opportunities for streamlining the process. We discussed some of these opportunities in a July 1999 letter to IRS' Chief Operations Officer.[9] In that letter, we discussed the following concerns we had with correspondence that IRS used to communicate with taxpayers who were involved in the recertification process:

- The form letter that IRS used to tell taxpayers that their EIC claims were disallowed contained irrelevant information pertaining to fraud and negligence. We expressed the belief that the language used could cause some taxpayers to not file a claim to which they might be entitled. IRS agreed to modify the letter.
- Taxpayers could be confused because two form letters used by IRS cited different time frames as to when taxpayers may expect their refunds. One letter said 30 days while the other said 8 weeks. IRS agreed to make the time frames consistent.
- A letter and form that IRS used to tell taxpayers that IRS needed additional information to verify their EIC eligibility could burden taxpayers by causing them to send much more documentation than called for by IRS' operating procedures. IRS said that it would revise the letter and form.

In addition to our concerns with IRS' correspondence, we identified two problems with the recertification process. The first problem involves apparently unnecessary steps in the process that create additional burden for IRS and taxpayers; the second problem involves inconsistent procedures that could result in disparate treatment of taxpayers.

[8] Although IRS had no readily available data on the other 110,636 taxpayers who were denied the EIC on their tax year 1997 returns, it seems reasonable to assume that most, if not all, either filed returns without an EIC claim or did not file.

[9] IRS Correspondence to Taxpayers on Earned Income Credit Recertification (GAO/GGD-99-112R, July 30, 1999).

Although IRS tells taxpayers that to recertify they must submit a Form 8862 with their tax returns, officials at three service centers we visited said that the information provided on the Form 8862 is not sufficient to recertify anyone. Instead, after receiving Form 8862, service center personnel are to send a separate letter and a form (Form 886-H) asking taxpayers to provide various documents to prove their eligibility. Even IRS' internal recertification guidelines show the ambiguous purpose of Form 8862, as follows:

"…To demonstrate current eligibility, the regulations require the taxpayer to complete Form 8862…[However] The Treasury Department and the IRS anticipate that the Commissioner of the IRS may require taxpayers to provide documentary evidence in addition to Form 8862. Whether or not the Commissioner requires taxpayers to provide documentary evidence in addition to Form 8862, the Commissioner may choose to examine any return claiming the EIC for which Form 8862 is required…The Form 8862 is designed to lead the taxpayer through the EIC tests of entitlement. Because Service Center Examination will look at all [tax year] 1998 returns of "required to recertify" taxpayers who file Form 8862, the actual taxpayer entries on the Forms 8862 will not determine entitlement in Processing Year 1999. However, it is anticipated that in future years, the Form 8862 will be used to determine entitlement in pipeline processing."

Under current procedures, taxpayers may have to wait from 30 to 60 days after filing their returns with the required Form 8862 before receiving IRS' request for supporting documentation. Taxpayers would then have up to 30 days to gather the documents and submit them to IRS. According to some service center officials, this exchange of correspondence creates additional burden on both taxpayers and IRS and delays return processing.

The second problem involves an inconsistency in the procedures followed by the three service centers we visited. One service center, after reviewing the Forms 8862, sent Letter 525 and Form 886-H to those taxpayers who claimed the same EIC-qualifying child who had been disallowed or claimed a new EIC-qualifying child. Letter 525 tells taxpayers that IRS denied their EIC claim but will reconsider that denial if the taxpayers provide supporting documents within 30 days.

The second service center did not summarily deny taxpayers' EIC claims after reviewing the Forms 8862. Instead, that center sent Letter 566A and Form 886-H to those taxpayers. Letter 566A tells taxpayers that their returns are being examined and that they must provide, within 30 days, the documents listed on Form 886-H before they can be recertified. If taxpayers did not respond within 30 days or if their responses were insufficient, the service center sent Letter 525 to inform the taxpayers that their EIC claims were denied.

The third service center used varying recertification procedures, depending on its workload. When its workload was not too heavy, the service center sent taxpayers Letter 525, denying the EIC. However, when its workload became too heavy, the service center changed procedures and sent taxpayers Letter 566A. Officials at this service center said that it is time-consuming to prepare a Letter 525, which requires an explanation to the taxpayer as to why he or she did not qualify for the EIC. As a result, when workload became heavy, the service center relied on Letter 566A to allow the center some additional time before "auditing" the return.

According to IRS' recertification guidelines, the first service center was following prescribed procedures and the second and the third centers, although seemingly more customer friendly, were not. In explaining the rationale for sending a Letter 525 so quickly, an IRS official at the first center said that the process would be unnecessarily delayed for at least 30 days, as in the case of the second and third service centers, waiting for a response to Letter 566A before denying the EIC. The official pointed out that taxpayers who immediately receive a Letter 525 still have the opportunity to submit documentation and prove their entitlement to the EIC.

Use of Electronic Filing Continued to Increase

As of October 29, 1999, IRS had received about 126 million individual income tax returns, which is an increase of about 2 percent compared to the same time last year. The use of electronic filing increased at a much more robust pace (about 19 percent). This increase in electronic filing continued a period of continual growth since 1996. Even with the increase in electronic filing, about 96 million tax returns (77 percent) were filed on paper in 1999. IRS, in 1999, tested several initiatives to increase the use of electronic filing. As of November 2, 1999, IRS had not compiled the necessary data to assess the impact of those initiatives on electronic filing.

There are three types of electronic filing: (1) traditional, whereby returns are transmitted through a third party (such as a tax return preparer or electronic return transmitter) known as an electronic return originator; (2) on-line, whereby returns are transmitted by the taxpayer through an on-line intermediary using a personal computer and commercial software; and (3) TeleFile, whereby returns are transmitted by the taxpayer over the telephone lines using a Touch-Tone telephone.

Although IRS has not done the kind of comprehensive analysis needed to fully assess the costs and benefits associated with these alternative filing methods, it assumes that the methods save IRS money by, among other things, significantly reducing the number of errors that IRS has to correct. Electronic filing options include built-in checks that are designed to catch certain taxpayer errors, such as computational mistakes, in advance so that they can be corrected by the taxpayer before IRS takes possession of the return. Also, returns filed electronically bypass the error-prone manual procedures that IRS uses to process paper returns.

Table 7.1 shows that the use of traditional electronic filing and on-line filing increased in 1999, while the use of TeleFile decreased.

Table 7.1: Number of Individual Income Tax Returns Received, by Filing Type

(Number of returns in thousands)

Filing type	1/1/97 to 10/31/97	1/1/98 to 10/30/98	Percentage change: 1997 to 1998	1/1/99 to 10/29/99	Percentage change: 1998 to 1999
Paper	101,790	98,453	-3.28%	96,178	-2.31%
Electronic					
Traditional	14,090	17,697	25.60	21,227	19.95
TeleFile	4,694	5,963	27.03	5,665	-5.00
On-Line	367	942	156.68	2,457	160.83
Subtotal	**19,151**	**24,602**	**28.46**	**29,349**	**19.30**
Total	**120,941**	**123,055**	**1.75%**	**125,527**	**2.01%**

Source: IRS' Management Information System for Top Level Executives.

Several Factors May Have Contributed to the Increase in Electronic Filing

IRS officials cited several factors, as follows, that may have contributed to the increase in electronic filing in 1999:

- IRS entered into new partnerships with private sector companies to broaden the electronic services accessible through IRS' Web site. As part of these arrangements, IRS placed hyper-links from its Web site to the partners' Web sites, and the partners developed initiatives, such as free electronic filing and free tax preparation software, to increase electronic filing.
- The number of electronic return originators (ERO) increased from about 82,000 in 1998 to about 90,000 in 1999. Also, some EROs charged taxpayers less to file electronic returns in 1999, and some offered free electronic filing to taxpayers who met certain criteria.
- Due, in part, to IRS' marketing and education efforts, taxpayers are becoming more familiar and comfortable with electronic filing and therefore are more likely to file electronically.

Another step that IRS took in 1999, which could have a significant positive effect on future growth in electronic filing, was to test several initiatives directed at making electronic filing paperless.

Initiatives to Make Electronic Filing Paperless

One aspect of electronic filing that has been cited consistently as a barrier to greater use is the requirement that electronic filers continue to send IRS certain paper documents. For example, except for taxpayers who use TeleFile, taxpayers who file electronically have had to submit a paper signature document (Form 8453) along with copies of their Wage and Tax Statements (Form W-2).[1] Also, taxpayers who file electronically and have a balance due have had to mail a check and payment voucher to IRS. To make electronic filing paperless and thus more attractive to potential users, IRS tested four initiatives in 1999. Two initiatives enabled certain taxpayers to use electronic signatures; the two other initiatives provided electronic payment alternatives to taxpayers who owed money.

Electronic Signature Tests

IRS, during the 1999 filing season, tested two signature alternatives that waived the need for taxpayers who participated in these tests to submit Forms 8453 and W-2s.[2] In one test, taxpayers filing electronic returns

[1] Instead of submitting their W-2s, TeleFile users must enter certain information from each of their W-2s via the telephone. In lieu of a signature document, TeleFile users must make the following declaration over the telephone: "Under penalties of perjury, I declare that to the best of my knowledge and belief, the return information I provided is true and correct and includes all amounts and sources of income I received during the tax year."

[2] Taxpayers who had other paper documents that had to be sent to IRS in support of their electronic submission could not participate in these alternative signature tests.

prepared by about 2,500 participating EROs used a self-selected personal identification number (PIN) instead of completing a Form 8453. An IRS official told us that as of October 10, 1999, about 497,000 taxpayers had used the PIN option to sign their tax returns. According to a cognizant official, IRS did not encounter any problems during this test.

IRS surveyed practitioners to ascertain, among other things, if they believed that the PIN option increased their electronic filing business. A July 1999 report on the results of IRS' survey noted that "most practitioners did not believe that PINs increased their number of [electronically filed] returns, but it did make those returns that they otherwise would [electronically file] less burdensome."

An official of the largest national tax return preparation company told us that IRS' test was a good start. However, he mentioned the following two features of the process that he would like to see changed:

- Although participating taxpayers no longer have to send IRS a paper signature form, the process is not paperless. Taxpayers still have to sign an authentication worksheet that the preparer is to keep on file in case there is any dispute about the return's authenticity. The official felt that the PIN was sufficient to authenticate the return and would like to see the authentication worksheet eliminated.
- On a joint return, both taxpayers must be present to enter their own PINs. While understanding the intent of the requirement, the official thought that it was unrealistic to expect both taxpayers to be present when the return is being prepared. The need for taxpayers to be present in the practitioner's office to enter their PINs was mentioned in IRS' July 1999 report as the "greatest difficulty" with the use of PINs. The report recommended further exploration of that issue.

To increase the use of on-line filing, IRS, in its second alternative signature test, identified 12 million taxpayers who had prepared their own tax returns in 1998 using tax preparation computer software but who had filed on paper. IRS mailed those taxpayers a postcard instead of a paper tax package. The postcards provided each taxpayer with a unique E-file Customer Number (ECN) and informed them that, by using that number, they could file a totally paperless tax return on-line.[3] As of October 10, 1999, according to IRS, about 660,000 taxpayers had used ECNs as their signatures. IRS encountered one problem during the early phase of this

[3] On-line filers who were not selected to participate in this test had to submit a paper signature document.

test. The contractor who had transmitted the on-line returns mistakenly blocked out the taxpayers' ECNs; therefore, no legal signature existed on some returns. (IRS officials told us that they did not know how many taxpayers were affected by this problem.) The contractor sent a letter to affected taxpayers telling them that it had made a mistake and that the taxpayers would have to submit a paper signature document.

IRS surveyed taxpayers who had used ECNs to determine if this signature alternative encouraged them to file on-line. As of November 2, 1999, IRS had not finished analyzing the results of that survey. However, according to IRS, about 54 percent of the survey respondents said that the ECN made them more likely to file electronically.

Officials responsible for the electronic filing effort told us that, for the 2000 filing season, IRS (1) hopes to double the number of EROs participating in the PIN project and (2) intends to increase the number of taxpayers who are allowed to use ECNs.

Electronic Payment Tests

In 1999, for the first time, many taxpayers who electronically filed balance due returns could electronically pay their balance due in one of two ways—either by credit card or by direct debit from a checking or saving account. On-line filers who used Intuit software packages[4] after February 26, 1999, when testing of the system was completed, were able to indicate on-line when filing their tax returns that they wanted to pay their balance due by credit card. Taxpayers who used traditional electronic filing or TeleFile, as well as taxpayers who filed on paper, could charge their balance due by credit card with a toll-free telephone call to a private company that processed the credit card payment.

IRS' contractor for the pay-by-phone credit card program encountered a problem that resulted in about 13,700 payments being processed improperly. Even though the taxpayers' credit card accounts were charged on April 15, 1999—the filing and payment deadline—these payments were treated as advanced payments of the taxpayers' tax year 1999 tax liability and resulted in a balance due for the 1998 tax year. According to a cognizant IRS official, about 1,000 of these taxpayers received a notice from IRS telling them that their 1998 tax year payment was delinquent. IRS was able to stop notices from going to the other taxpayers. Therefore, these taxpayers did not know that their credit card payment was originally processed incorrectly. According to IRS, the contractor contacted all of

[4] On-line filers who did not use Intuit software packages could not pay by credit card.

the affected taxpayers and informed them that IRS had corrected its records and that the contractor, not IRS, had made the mistake.

Taxpayers filing electronic balance due returns could also pay their balance due by a direct debit to their checking or savings account through an automated clearing house.[5] Taxpayers using the direct debit option were able to file early and postpone their payment until April 15. However, the direct debit option was only paperless for on-line filers who participated in the ECN test. Other on-line filers and traditional electronic filers who chose the direct debit option had to submit a Form 8453, which contains a disclosure statement that requires the taxpayer's signature authorizing the direct debit. On-line filers who participated in the ECN test were using the ECN as their signature and had to indicate, via an on-line prompt, that they wanted to use the direct debit option. IRS informed us that there were virtually no problems encountered in processing the debit payments.

Both the credit card and direct debit options eliminated the need for taxpayers to send checks and payment vouchers to IRS. As of October 8, 1999, about 53,000 and 75,000 taxpayers had paid their tax liabilities by credit cards and direct debits, respectively. An IRS spokesman said that IRS was unable to determine the impact of these payment options on persons' decisions to file electronically.

Officials responsible for the electronic filing effort told us that IRS intends to expand the electronic payment options. For the 2000 filing season, IRS intends to expand the credit card payment option to taxpayers who file two other forms—Form 1040-ES (Estimated Tax) and Form 4868 (Request for Extension). IRS also plans to expand the use of the direct debit option to TeleFile users in 2000.

Use of TeleFile Decreased Despite IRS Initiative

IRS, in an effort to increase the use of TeleFile, initiated a pilot program in Indiana and Kentucky to study the possibility of allowing taxpayers the opportunity to file both their federal and state tax returns with one telephone call. As of October 29, 1999, about 107,000 taxpayers in these two states had filed their federal and state tax returns via this pilot program. Despite the joint federal/state TeleFile pilot and the credit card payment option previously discussed, the number of TeleFile returns filed in total, as well as by taxpayers in Indiana and Kentucky, decreased slightly from the numbers filed in 1998.

[5] Taxpayers filing TeleFile returns could not use the direct debit option because programming for Touch-Tone telephone payments could not be completed in time for the 1999 filing season.

Officials in IRS' Office of Electronic Tax Administration suggested the following two possible reasons for the decrease in TeleFile use:

- Taxpayers who would have been eligible to use TeleFile in prior years were ineligible in 1999 because they claimed the new student loan interest deduction or new education credits, which cannot be claimed by someone filing via TeleFile.
- Taxpayers who could have used TeleFile might have switched to on-line filing.

Tax Law Changes Added Complexity and Led to Numerous Taxpayer Errors

Some tax law changes mandated by TRA97 took effect during the 1999 filing season. Those changes included (1) a new basic child tax credit, (2) an additional child tax credit for taxpayers with three or more eligible dependents, and (3) various new education-related deductions and credits. The added complexity associated with the child tax credit provisions led to numerous taxpayer errors and increased IRS' processing workload.

Basic Child Tax Credit

A tax law change affecting certain taxpayers with dependents provided a maximum nonrefundable child tax credit of $400 for each qualifying child.[1] Taxpayers with children must first determine if their children qualify for the credit using criteria that differ from the criteria for determining if a child qualifies for a dependent exemption or for the EIC. After taxpayers determine that they have qualifying dependents, they are to fill out an 11-line worksheet to determine the amount, if any, of their credit. The credit is phased out over various income levels on the basis of filing status and cannot exceed the taxpayer's tax liability. In addition, the credit is reduced by other credits, including the child care credit, the credit for the elderly and disabled, and education credits.

About 28 percent of the individual income tax returns filed as of August 27, 1999, listed one or more dependents who the taxpayers believed qualified for the child tax credit. But, according to IRS data, only about 20 percent of the filed returns actually included a child tax credit claim. As noted in the preceding paragraph, additional criteria beyond the existence of a qualifying child would have made some of these taxpayers ineligible. However, as discussed in the next paragraph, some taxpayers who were eligible for the credit did not claim it.

According to data provided by IRS, the child tax credit was the fourth most common source of errors made on individual income tax returns filed in 1999.[2] As of July 16, 1999, IRS had mailed about 571,000 notices to taxpayers whose returns contained errors relating to that credit. About 88 percent of these errors were made by taxpayers who prepared their own returns. Service center processing officials estimated that about one-half of these taxpayers failed to take the credit, even though they checked the box indicating that they had an eligible dependent and other information on the return (e.g., amount of income) indicated that they were eligible. The other one-half erred in calculating the credit amount. The need to

[1] In tax year 1999, the maximum credit will be increased to $500.

[2] The two most common errors dealt with the name or SSN of dependents not matching the Social Security Administration's records, leading to disallowance of the exemption and child tax credit, respectively. The third most common error was that the EIC was figured or entered incorrectly.

correct these mistakes added to IRS' processing workload and may have led to a refund delay for some taxpayers.

During the filing season, IRS revised its procedures for dealing with returns in which taxpayers failed to take the child tax credit even though information on the return indicated that they were eligible. Initially, IRS adjusted such returns to include the credit, without verifying the dependent's age. To qualify, a dependent must be under 17. After March 2, 1999, IRS began verifying the dependent's age using information from the Social Security Administration. Because this verification was done manually, service center officials told us that it significantly increased their workload, although they were unable to quantify the workload increase.

In response to the numerous errors, IRS issued a press release in early March 1999 cautioning taxpayers to carefully check the child tax credit instructions before filing their returns. In addition, IRS is developing revised instructions for next year's tax packages in an effort to reduce taxpayer errors during the 2000 filing season.

Additional Child Tax Credit

The additional child tax credit was designed to benefit taxpayers with three or more dependents and could be a refundable credit. To benefit from this credit, taxpayers had to meet conditions beyond those for the basic child tax credit and were required to fill out an additional form to determine how much, if any, additional credit they were due.

Because of the numerous limitations placed on the additional child tax credit, very few taxpayers benefited from this credit. Only about 4 percent of filed returns listed three or more eligible dependents. For taxpayers with three or more eligible dependents, the credit was limited by the amount of Social Security and Medicare tax withheld, if any; one-half of any reported self-employment tax; and any Social Security and Medicare tax on tip income not reported to the taxpayers' employers. The credit was then reduced by amounts claimed for the EIC, the credit for the elderly and disabled, education credits, and any excess Social Security tax withheld. As a result, about 86 percent of the returns with three or more eligible dependents that were filed as of August 27, 1999, did not claim any additional child tax credit because the taxpayers either were not eligible for the credit or overlooked taking the credit even though they were eligible. Overall, only about 1/2 of 1 percent of all tax returns showed some amount for the additional child tax credit.

As of July 16, 1999, IRS had sent out about 40,000 notices to taxpayers who had made a mistake in claiming the additional child tax credit.

Education Benefits

During the 1999 filing season, several education-related deductions and credits took effect, including student loan interest deductions and the Hope and lifetime learning credits. As of August 27, 1999, about 3 percent of all returns claimed a student loan interest deduction, and about 4 percent of the returns claimed education credits.

Various witnesses at a May 25, 1999, Oversight Subcommittee hearing on tax law complexity expressed concern about the overall complexity associated with the array of education assistance programs now available in the tax code. However, unlike the child tax credit, the impact of such complexity in terms of the number of taxpayers who inappropriately claimed the credit or deductions or who failed to claim a credit or deduction to which they were entitled generally cannot be determined from the face of the return. An audit of the return and supporting documents would be needed to determine if taxpayers claimed the proper amount or were entitled to amounts that they did not claim.

Even with these limitations, IRS, as of July 16, 1999, had sent about 53,000 notices to taxpayers who had erred in claiming education-related benefits. Nearly all of these errors were by taxpayers who claimed more student loan interest than the $1,000 maximum allowed by the law.[3]

[3] The maximum deduction for student loan interest is phased in over 4 years, beginning with $1,000 for tax year 1998; $1,500 for tax year 1999; $2,000 for tax year 2,000; and $2,500 for tax year 2001 and thereafter.

Significant Changes to Computer Systems Accomplished Without Processing Disruptions

For the 1999 filing season, IRS made significant changes to the computer hardware and software that it uses to process returns and remittances. IRS accomplished these changes without any discernible disruption to the processing of returns, refunds, and remittances.

Replacement of Return and Remittance Processing Systems

One major change involved replacement of the returns processing system at all 10 service centers and replacement of the remittance processing system at 6 centers (the other 4 centers were to have their remittance processing systems replaced in time for the 2000 filing season). According to an IRS official responsible for this replacement project and processing officials at two service centers, the transition to the new systems went well, and workloads were processed as expected. Also, our analysis of various filing season data and comparisons of those data to similar data for the 1998 filing season disclosed nothing to indicate that this replacement project caused any significant processing delays in 1999.

IRS continually worked throughout the filing season to resolve various system problems, most of which did not affect taxpayers. For example, there were problems with the transport system on the remittance processing system, which required additional personnel to perform maintenance. IRS reported one problem with the remittance processing system that failed to record some taxpayers' payments, which led to the issuance of about 2,400 erroneous balance due notices. According to IRS, it quickly contacted the affected taxpayers to provide the correct information.

Consolidation of Mainframe Computer Equipment

A second major change involved consolidating service centers' mainframe computer equipment at IRS' two computer centers in Martinsburg, WV, and Memphis, TN. At the beginning of the 1999 filing season, computer operations for three service centers had been consolidated. IRS projects that the other seven centers will be consolidated by January 2001. Because this project is ongoing, IRS is continuing to resolve problems, such as isolated printer problems affecting the printing of address labels for Examination and Collection cases. An official at one of the consolidated service centers said that this problem delayed the issuance of some notices and that, in some cases, IRS personnel resorted to handwriting labels. However, the IRS official stated that these problems had no effect on filing season-related taxpayer notices.

Conclusions, Recommendations, and Agency Comments

Conclusions

A successful filing season requires that IRS effectively manage a wide range of programs, through which it assists taxpayers in meeting their filing requirements; processes filed returns and related tax payments; and takes certain steps to help ensure that taxpayers' refund claims, especially those involving the EIC, are valid. There were many positive accomplishments during the 1999 filing season. IRS expanded the availability of walk-in services, stopped hundreds of millions of dollars in erroneous EIC payments, saw a sizable increase in electronic filing, and implemented a major new processing system without significant disruption. However, there were also some problems—the most important being a significant decline in telephone service despite IRS' efforts to improve that service.

IRS officials cited several factors that contributed to the decline in telephone service, some of which might be due to IRS' inexperience with its new way of managing telephone operations and its new call routing technology. However, other factors, such as inadequate planning and decisionmaking that appeared to be based on inadequate data or that seemed to ignore existing data, may be symptomatic of basic management weaknesses or challenges. To better understand the challenges facing IRS and better position ourselves to propose constructive solutions, we are reviewing, in more detail, IRS' management of its telephone operations. Thus, we are making no telephone-related recommendations in this report.

In addition to the decline in access to the telephone system, the quality of answers that taxpayers received when they reached an IRS assistor also dropped. IRS recognizes the need to provide further training to its assistors, and officials said there are plans to do so before the start of the 2000 filing season. That training should help improve quality. We also identified some features of IRS' methodology for measuring quality during the 1999 filing season that warranted IRS' attention. For example, IRS monitored about 31 percent fewer telephone calls than provided for in its sampling plan, which could affect the precision of IRS' estimates of quality. With respect to our other concerns about IRS' methodology, IRS has agreed to examine the effect of cluster sampling on the precision of its estimates and has extended the hours during which it is monitoring calls. Even with the increase in monitoring hours, IRS' measure of quality might still provide different results than it would if all hours were monitored.

Besides expanding the availability of walk-in services in 1999, IRS did a better job of measuring customer satisfaction with those services. However, it made little progress in measuring service quality and timeliness. Without meaningful nationwide performance data, IRS cannot determine if the walk-in program is meeting its objectives and goals, and thus whether it is an effective method of providing service.

IRS also increased the information and services it provides through various other methods, such as its Web site. However, the substantial increase in use of the Web site's E-mail service strained resources and apparently contributed to inaccurate responses and slow response times. Due to the way IRS tracked response times (calendar days v. business days), it could not actually determine how close it came to meeting its timeliness goal. We are not making any recommendations in this area because IRS told us that it plans to (1) change the response-time tracking system to align it with the way the goal is stated and (2) provide assistors with additional training on the E-mail topics with the highest error rates.

IRS data strongly suggest that the continuing emphasis on EIC noncompliance has produced significant results. IRS identified many erroneous claims by validating SSNs and scrutinizing certain EIC claims. In addition, the many taxpayers who had their EIC denied for tax year 1997 and did not claim the EIC for tax year 1998 would seem to indicate that the new recertification procedures had a positive effect. However, it is possible that some of those taxpayers who did not claim the EIC for tax year 1998 may have been entitled to the credit but did not understand the recertification process or found it too burdensome. IRS has agreed to make some changes in that regard in response to our July 1999 letter.[1]

In addition to those changes, we believe that the form taxpayers are required to submit to be "recertified" (Form 8862) may mislead them to believe that the information they provide in response to the questions on the form will be sufficient for recertification. Taxpayers may become discouraged and confused when they realize that the information is not sufficient and, instead, that submission of Form 8862 leads to still another IRS request for documents. Taxpayers might rightfully wonder why, if the documents required by later correspondence are essential for recertification, IRS did not tell them that those documents were required when it first notified them about the need to recertify. In addition, even though there was national guidance on the recertification process that service centers were to follow, the guidance was not being followed consistently, which could result in disparate treatment of taxpayers.

Tax law changes dealing with the new child tax credit seem to have added complexity to filing a tax return, as evidenced by the numerous errors and

[1] GAO/GGD-99-112R.

increased processing workload for IRS. IRS is planning to revise the tax package instructions for tax year 1999 (filing year 2000) in an attempt to reduce taxpayer confusion.

Our analysis of various performance data indicated that IRS successfully implemented a new processing system. One piece of evidence that we initially thought might indicate some problem with the new system was that IRS took longer than 40 days to issue about 15 percent of the refunds on paper returns. Further inquiry indicated, however, that IRS' performance in 1999 was close to its performance in 1998. However, we are still concerned that IRS took more than 40 days to issue so many refunds. There may be valid reasons, but IRS was unable to provide us with the kind of data needed to make that determination. Such data are important if IRS wants to identify ways that it might improve its performance.

Recommendations

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

- Analyze the effect of not achieving the planned sample size for monitoring the accuracy of responses to tax law calls and use the results of that analysis to design the sample used in future monitoring.
- Implement a program for assessing the performance of IRS' walk-in sites. As part of that program, require that quality reviews be done, provide sufficient guidance to ensure that the reviews are done consistently and address appropriate issues, and require that data on the results of quality reviews and wait-time monitoring (whether done automatically or manually) be reported to a central location for analysis.
- If IRS does not rely on Form 8862 for recertification purposes, discontinue its use.
- If IRS continues using Form 8862 for recertification purposes, redesign the form to include reference to the documentation listed on Form 886-H and any other documentation that IRS thinks is necessary for recertification so that taxpayers who are required to recertify know as early as possible what documentation is required for recertification.
- Ensure that all service centers implement the recertification procedures according to national guidelines to avoid possible disparate treatment of taxpayers.
- Analyze the results of the refund timeliness tests to determine, among other things, why about 15 percent of the refunds took longer than 40 days to issue and what the test results showed for returns that were filed error-free.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from IRS. We obtained IRS' written comments in a December 3, 1999, letter from the Commissioner of Internal Revenue (see app. II). On December 3, 1999, we also met with various representatives from the office of IRS' Chief Operations Officer, which is responsible for the various programs we reviewed, to discuss IRS' comments. In his letter, the Commissioner said that (1) our draft report provided a fair and balanced assessment of IRS' efforts to improve processing while providing taxpayers with top quality service and (2) IRS would make every effort to resolve the issues noted in the draft report.

Regarding our recommendation to analyze the effect of not achieving the planned sample size for monitoring the accuracy of responses to tax law calls, the Commissioner said that IRS has completed such an analysis and is in the process of filling 20 additional monitoring positions. He said that with the additional staff, IRS will be able to meet the desired sampling plan for tax law and other telephone calls. IRS' actions appear responsive to our recommendation.

IRS agreed with our recommendation regarding the implementation of a program for assessing the performance of IRS' walk-in sites. The Commissioner said that, in fiscal year 2000, IRS will implement a quality review program to measure the quality and timeliness of services at walk-in sites. According to IRS, training was conducted in October 1999 to ensure consistency among the quality reviewers, and quality review results and wait-time monitoring results will be reported to the National Office for analysis. These actions, if effectively implemented, will meet the intent of our recommendation.

In responding to our two recommendations dealing with Form 8862, the Commissioner said that (1) IRS relies on Form 8862 to "identify the type of action to be taken for taxpayers required to recertify" and (2) any modifications to Form 8862 will be made after assessing the results of the recertification process in 1999 and after completion of an ongoing IRS research project on recertification. At the December 3, 1999, meeting, IRS officials confirmed that IRS' intent is to defer any decision on either discontinuing or modifying Form 8862 until after the assessment and research project referred to by the Commissioner are completed.

We believe that it would be useful to await the results of IRS' assessment and research project before deciding on changes to the recertification process in general and the use of Form 8862 in particular. We encourage the Commissioner to ensure timely completion of those efforts so that any changes can be implemented in time for the 2001 filing season. We will be checking on the results of IRS' assessment and research project as part of our review of the 2000 tax filing season.

The Commissioner also noted that redesigning Form 8862 to include references to documentation that might be needed for recertification may be counterproductive to IRS' efforts to reduce taxpayer burden. He explained that such a change, for example, could cause some taxpayers to submit unnecessary documentation with their returns.

We agree with the Commissioner about the need to reduce taxpayer burden, and that is the intent of our recommendation. We believe that the current process could mislead taxpayers into believing that the information they provide on Form 8862 will be sufficient for recertification and that their refund is being processed. When taxpayers subsequently receive the notice that their refund is being delayed and that additional documents are necessary for recertification, they may feel burdened by the delayed refund and by the fact that IRS waited until after they filed to tell them what information they had to provide to prove their eligibility for the EIC. We also believe that IRS can mitigate any risk that adoption of our recommendation will cause some taxpayers to provide unnecessary documentation by making it clear, in the notice sent to taxpayers, when submission of the documentation is required.

IRS agreed with our recommendation that all service centers implement the recertification procedures according to the national guidelines. According to the Commissioner, (1) the guidelines have been incorporated into the Internal Revenue Manual, (2) adherence to procedures in the manual is mandatory, and (3) special reviews will be done during fiscal year 2000 to assess conformance to the procedures.

IRS also agreed with our recommendation that it analyze the results of the refund timeliness tests to determine why some refunds took longer than 40 days to issue and what the test results showed for returns that were filed error-free. The Commissioner said that IRS will be doing an initial analysis that will provide some of the information called for in our recommendation. Depending on the results of that analysis, which is to be completed by February 1, 2000, IRS said that it might conduct a more extensive analysis. We will be following up on the results of IRS' analysis as part of our assessment of the 2000 tax filing season.

IRS also provided various technical comments, which we incorporated in the body of this report where appropriate.

IRS Workload Indicators

(Numbers and dollars in thousands

Indicator	As of date	1998	1999	Percentage change[a]
Individual income tax returns received				
Electronic returns:				
Traditional electronic[b]	10/29	17,697	21,227	19.95%
TeleFile[c]	10/29	5,963	5,665	-5.00
On-line[d]	10/29	942	2,457	160.83
Paper returns:				
Form 1040	10/29	61,664	62,082	0.68
Form 1040A	10/29	16,440	15,663	-4.73
Form 1040EZ	10/29	12,816	11,896	-7.18
Form 1040PC[e]	10/29	7,533	6,537	-13.22
Total, paper and electronic	10/29	123,055	125,527	2.01
Refunds issued				
Number	9/03	82,048	88,751	8.17
Amount	9/03	$109,675	$135,984	23.99
Number of direct deposits	9/03	19,187	23,456	22.25
Amount of direct deposits	9/03	$34,422	$47,320	37.47
EIC				
Number of recipients	8/28	19,393	19,016	-1.94
Total amount of EIC	8/28	$29,406,298	$30,190,199	2.67
Remittances[f]				
Total number of remittances	9/30	230,459	227,181	-1.42
Total amount of remittances	9/30	$1,754,921,238	$1,890,874,382	7.75
Extension of time to file	5/21	6,984	7,143	2.28
Internet use				
Hits	5/02	370,256	793,678	114.36
Files downloaded	4/30	26,798	57,009	112.74
E-mail tax law questions received	4/15	82	155	89.02
Tax form orders filled	5/01	7,783	7,345	-5.63
Tax forms faxed to taxpayers	4/30	906	970	7.06
Total TeleTax calls	4/17	37,463	35,697	-4.71
Tax law calls	4/17	7,728	8,151	5.47
Refund calls	4/17	29,735	27,547	-7.36
Total toll-free telephone calls[g]	4/17	50,125	65,278	30.23
Calls answered	4/17	37,127	35,597	-4.12
Busy signals	4/17	4,478	20,424	356.10
Abandons	4/17	8,520	9,256	8.64
Taxpayers assisted at walk-in sites	5/01	6,233	6,237	.06

[a]Numbers may not compute to this percentage due to rounding.

[b]Traditional electronic returns are transmitted through a third party (such as a tax return preparer).

[c]TeleFile returns are transmitted by taxpayers over the telephone lines using a Touch-Tone telephone.

[d]On-line returns are transmitted by taxpayers through an on-line intermediary using a personal computer and commercial software.

[e] Form 1040PC is a paper return prepared using computer software.

[f] Remittances include payments from individuals and businesses.

[g] Toll-free telephone calls include calls to six IRS telephone lines: tax law assistance, EIC/refund inquiry, account inquiry, forms ordering, Automated Collection System, and fraud hotline.

Source: IRS data.

Comments From the Internal Revenue Service

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

COMMISSIONER

December 3, 1999

Mr. James R. White
Director, Tax Policy and Administration Issues
General Accounting Office
441 G Street, N.W.
Room 1T47
Washington, D.C. 20548

Dear Mr. White:

Thank you for the opportunity to review and comment on GAO's draft report entitled "Tax Administration: IRS' 1999 Filing Season (Job Code 268864)," which focuses on our performance during the 1999 tax filing season. The draft report provides a fair and balanced assessment of our efforts to improve processing while providing taxpayers with top quality service. In the comments below, I will first share my personal perspectives on the challenges we face, and then describe our plans for addressing your recommendations.

The IRS had a very successful filing season, especially given the enormous challenges and risks we faced when nearly all of our mission critical systems were made Y2K compliant and placed back into production for the 1999 filing season. The massive amount of change made to our systems, coupled with the extremely heavy volume of processing that occurs during the filing season, posed major risks as we began the year. However, I believe that we managed this massive change in an orderly fashion and delivered a filing season that was relatively error-free. The few problems we encountered had minimal impact on a small number of taxpayers and were generally fixed within 24 hours of being identified.

We are pleased that you noted our enhancements and successes, specifically in the area of the availability of walk-in services, measuring customer satisfaction, increase in IRS Internet use, stopping millions of dollars in erroneous refunds, making electronic filing paperless, and successfully implementing a significant number of computer program changes.

You made several recommendations for enhancing our filing season performance, and I agree we need to address all areas. The following provides our comments to the draft report's recommendations. Also enclosed for your consideration are some additional suggestions for changes to the wording or statistics.

2

RECOMMENDATION

Analyze the effect of not achieving the planned sample size for monitoring the accuracy of responses to tax law calls and use the results of that analysis to design the sample used in future monitoring.

COMMENTS

We have completed an analysis of the effect of the actual sample size on our monitoring. Customer Service is in the process of filling 20 additional positions at the Centralized Quality Review System site. With this additional review staff, Customer Service will be able to meet the desired sample plan for tax law and other telephone calls. The sample plans are designed to produce rate estimates that are valid at the call site level each month with 90 percent confidence, plus or minus 5.

RECOMMENDATION

Implement a program for assessing the performance of IRS' walk-in sites. As part of that program:

1. require that quality reviews be done,
2. provide sufficient guidance to ensure that the reviews are done consistently and address appropriate issues, and
3. require that data on the results of quality reviews and wait-time monitoring (whether done automatically or manually) be reported to a central location for analysis.

COMMENTS

1. In Fiscal Year (FY) 2000, Customer Service will implement a quality review program to measure quality and timeliness of service at walk-in sites. Customer Service has worked with our Statistics of Income Division to determine the number of offices and visits needed to ensure we have a valid sample size.
2. Training was conducted in October 1999 to ensure consistency among quality reviewers and to address all procedures needed to conduct reviews.
3. Quality review results will be submitted to Headquarters upon completion of reviews to be incorporated into the national database for analysis. Wait time monitoring results for FY 2000 will be reported monthly to Headquarters for analysis.

3

RECOMMENDATION

If IRS does not rely on Form 8862 for recertification purposes, discontinue its use.

COMMENTS

The IRS relies on Form 8862 as the method to identify the type of action to be taken for taxpayers required to recertify.

RECOMMENDATION

If IRS continues using Form 8862 for recertification purposes, redesign the form to include reference to the documentation listed on Form 886-H and any other documentation that IRS thinks is necessary for recertification so that taxpayers who are required to recertify know as early as possible what documentation is required for recertification.

COMMENTS

The recommendation to include references to documentation that might be needed to substantiate eligibility (Form 886-H) may be counterproductive to the IRS' efforts to reduce taxpayer burden. For example, if listed on Form 8862, the taxpayer may feel this documentation must be provided with the return, which would eliminate the taxpayer's option to file electronically. Similarly, attaching documentation to paper returns, when it may be unnecessary, places an undue burden on the taxpayer.

Processing year 1999 was the first year that the recertification Form 8862 was in use. We anticipate any necessary recommendations to modify Form 8862 for Tax Year 2000 will be made when the initial processing year is complete. The analysis of examination statistics from the first year results, as well as the District Office Research and Analysis project on Recertification will provide insight on the recertification process. Information gathered will influence the way we perform examinations on Form 8862 in future years.

RECOMMENDATION

Ensure that all service centers implement the recertification procedures according to national guidelines to avoid possible disparate treatment of taxpayers.

4

COMMENTS

Many actions in place for the new fiscal year will help to provide consistent taxpayer treatment. Prior to the inception of the Recertification Program in January 1999, guidelines were developed and issued to each service center. These guidelines have been incorporated into the Customer Service IRM 21.8. Adherence to IRM procedures is mandatory. The IRS' new balanced measures place increased emphasis on quality throughout all levels of the organization. Headquarters will conduct Special Assurance reviews during FY 2000 to assess conformance to Earned Income Tax Credit procedures.

RECOMMENDATION

Analyze the results of the refund timeliness tests to determine, among other things, why about 15 percent of the refunds took longer than 40 days to issue and what the test results showed for returns that were filed error-free.

COMMENTS

We are in the process of obtaining an extract from which we can perform an initial analysis. We will be able to tell which returns had a math error, but not those on which we corresponded or on which there was an unpostable condition. Therefore, we cannot, based on the extracted data alone, identify whether a return was truly error-free. Depending on our findings in the initial analysis, we may make a decision to pull the returns and conduct a more extensive analysis. If we do further analysis, we will be able to determine the results for returns filed error-free. The results of the initial analysis will be completed on or before February 1, 2000.

In closing, I assure you that we will make every effort to resolve the issues noted in your report and are confident that the plans and actions put forth will successfully address these issues for the future filing seasons. If you have any questions or require additional information, please let me know or your staff may contact John M. Dalrymple, Chief Operations Officer, at (202) 622-6860.

Sincerely,

Charles Rossotti

Charles O. Rossotti

Enclosure

cc: National Director, Legislative Affairs Division
Assistant Inspector General for Audit

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, Wendy Ahmed, Rose Dorlac, Jyoti Gupta, Doris Hynes, Ronald Jones, John Lesser, Susan Mak, Sidney Schwartz, and Bradley Terry made key contributions to this report.

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