United States General Accounting Office

GAO

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

October 2003

TAX ADMINISTRATION

IRS's 2003 Filing Season Performance Showed Improvements

GAO-04-84

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Highlights

Highlights GAO-04-84, a report to Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

During the tax filing season, millions of taxpayers file their returns and seek assistance by calling or visiting IRS's offices or Web site. GAO was asked to assess IRS's 2003 filing season performance in five areas: processing returns, refunds and remittances; electronic filing; telephone service; walk-in assistance, and Web site. We assessed for each of those five areas (1) IRS's performance in 2003, including any factors that helped or impeded its efforts, (2) any new initiatives that were intended to improve IRS's performance in 2003, and (3) IRS's performance over past filing seasons.

What GAO Recommends

GAO recommends that IRS consolidate and disseminate available wait-time information to field managers.

In commenting on a draft of this report, IRS partially agreed with our recommendation, stating that it will require walk-in sites equipped with a system to report wait-time information quarterly and that this information would provide valuable data for assessing overall trends and relationships in timeliness and quality. However, IRS did not agree to disseminate this consolidated wait-time information to field managers, but without it, managers would have difficulty balancing timeliness and quality.

www.gao.gov/cgi-bin/getrpt?GAO-04-84

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

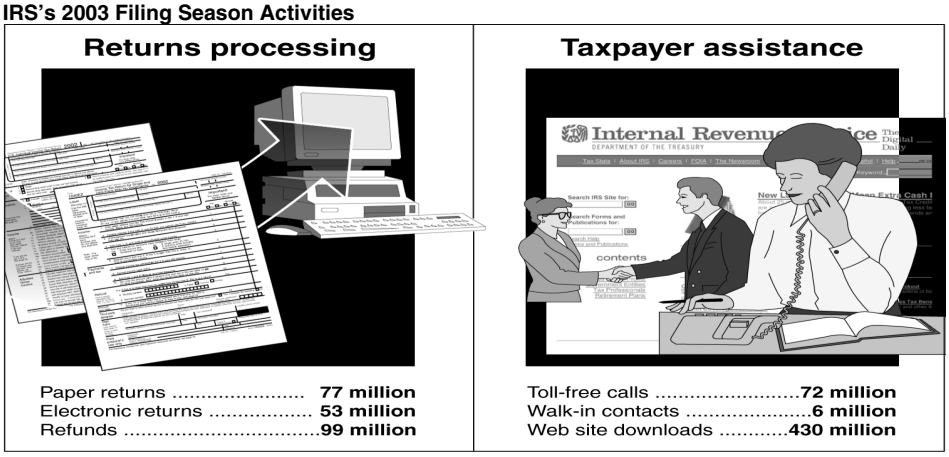
What GAO Found

Available data for each of five key filing season activities indicates that IRS's performance showed some improvements in 2003 compared to 2002 and IRS met or exceeded many of its 2003 performance goals. IRS processed returns and issued refunds more timely and accurately and increased the rate of electronic filing, although not at a rate that would allow IRS to meet its long-term goal. While IRS provided significantly more accessible telephone service, the accuracy rate of IRS responses declined. The accuracy of tax law assistance provided at walk-in sites improved, although the number of taxpayers assisted at IRS's walk-in sites declined, in part because taxpayers made greater use of the return-preparation assistance offered by volunteer organizations. In addition, IRS did not consolidate or disseminate data on how long taxpayers waited for walk-in assistance, making it difficult to balance quality and service. Finally, IRS's Web site performed well and was more user friendly than last year. IRS attributes improved performance, in part, to (1) fewer tax law changes that affected taxpayers and (2) continued emphasis on performance measures, a key part of IRS's strategy to improve its performance in processing returns and providing taxpayer assistance.

IRS implemented initiatives in 2003 intended to improve filing season performance. For example, IRS entered into an agreement with a consortium of 17 tax preparation companies to offer free on-line tax preparation, established new toll-free telephone numbers to better target different taxpayers, and began certifying walk-in staff to answer tax law questions.

Over a longer period of time, available data, although limited in some areas, also show that IRS's filing season performance has improved. Since the mid-1990s, the growth of electronic filing has allowed IRS to close one paper processing center and the accuracy and accessibility of telephone assistance has improved. While the Congress and taxpayers expect further progress, the improvements to date are a payoff from IRS's ongoing modernization.

IRS's 2003 Filing Season Activities



Source : IRS and Art Explosion.

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

October 31, 2003

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 2003 tax filing season.[1] It is during the filing season that most taxpayers have their only contact with IRS, filing their individual income tax returns, and if needed, seeking assistance or resolving simple problems, such as computational errors or missing Social Security numbers (SSN). Because of the millions of income tax returns processed and refunds issued and the crucial role that the filing season plays in the collection of revenue that finances the federal government, IRS's performance during the filing season is important to taxpayers and the Congress.

This report discusses IRS's performance in five key filing season activities (1) processing individual income tax returns, refunds, and remittances; (2) receiving returns electronically; (3) assisting taxpayers over the telephone; (4) providing face-to-face assistance at its walk-in locations; and (5) providing services via its Internet Web site. For each of the five areas the report discusses (1) IRS's performance in 2003 compared to 2002 and 2003 goals, including any factors that significantly affected performance, (2) any new initiatives that were intended to improve IRS's performance in 2003, and (3) significant trends in IRS's performance over the past several years resulting from modernization efforts.

Results in Brief

Overall, IRS's performance during the 2003 filing season improved compared to its performance in 2002 for each of the five filing season activities we reviewed, and IRS met many of its 2003 performance goals. However, the accuracy of telephone assistance declined, the growth of

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

electronic filing is slowing, and the timeliness of walk-in assistance is unknown.

Processing—IRS's performance improved in 2003 relative to 2002 for seven of the eight measures it uses to judge its performance in processing individual income tax returns, refunds, and remittances, and IRS exceeded most of its performance goals. Other evidence, such as testimony from representatives of the tax practitioner community, indicated IRS's processing performance was smooth and without significant disruptions. IRS officials attributed improvements in processing performance to efforts to build upon its largely successful 2002 filing season and the relatively small effect of tax law changes on taxpayers filing during the 2003 filing season. The growth of electronic filing and other improvements in processing returns, refunds, and remittances over the past several filing seasons has allowed IRS to eliminate paper processing at one location and reduce staff devoted to paper processing.

Electronic Filing—The number of individual income tax returns that IRS received electronically continued to grow, from about 47 million in 2002 to an estimated 53 million in 2003, and the percentage of returns filed electronically reached an estimated 41 percent. However, the current rate of growth of electronic filing is slowing and will not allow IRS to achieve its long-term electronic filing goal of 80 percent by 2007, despite a number of initiatives over the years to reduce barriers and encourage more electronic filing. Electronic filing is important because it allows IRS to shift resources out of paper processing and improve customer service.

Telephone Service—IRS performance data showed that it provided more accessible telephone service in 2003 and exceeded its 2003 performance goal for providing service to taxpayers trying to reach a Customer Service Representative (CSR). However, various measures show that IRS's performance in providing accurate responses to taxpayer questions declined, and IRS did not achieve most of its 2003 performance goals for accuracy. IRS implemented several initiatives in 2003—including the establishment of new toll-free telephone numbers targeting different types of taxpayers—that likely contributed to improved accessibility. Since the mid-1990s, IRS has significantly improved its telephone service. Although telephone service is not yet at the level desired by taxpayers and the Congress, the improvements to date represent a payoff from IRS's modernization efforts.

Walk-in Assistance—The quality of services IRS provides at its walk-in sites showed some improvement in 2003, and IRS met some of its 2003 performance goals. For example, the accuracy of tax law assistance provided at walk-in sites improved from 2002 to 2003. In addition, IRS continued its initiative to shift return preparation work to its community-based coalitions and other volunteer organizations, contributing to a decline in the number of taxpayers assisted at IRS's walk-in sites. With respect to accessibility, IRS did not consolidate or disseminate available data to managers on how long taxpayers waited for assistance in 2003. Without such data, managers may not be able to balance the attention given to accuracy and accessibility. Over the last several years, IRS has made efforts to standardize and improve its walk-in assistance, but a lack of historical performance data makes it impossible for IRS and us to quantify improvements.

Internet Web Site—Overall Web site usage increased in 2003, and the site performed well in terms of availability and average delivery time, according to an independent Web site rater. However, IRS's performance in responding to questions received via the Internet from taxpayers declined in 2003. IRS did resolve one of our key concerns from prior years about the search functions on the Web site, enabling taxpayers to find references to publications more easily. Also, in a major initiative in 2003, IRS provided the capability for taxpayers to check the status of their refunds on-line for the first time, and 11 million taxpayers did so. Over the past several filing seasons, usage of IRS's Web site and the number of services provided have increased. The increases are another example of payoffs from IRS's ongoing modernization effort.

We are making a recommendation to the Commissioner of Internal Revenue that IRS consolidate and disseminate wait-time information to field managers on the basis of information from walk-in sites equipped with an automated system that can capture wait-time data in order to assess this important aspect of quality. In commenting on a draft of this report (see app. III), the Commissioner of Internal Revenue partially agreed with our recommendation, stating that IRS will require walk-in sites equipped with Q-Matic to report wait-time information quarterly. However, the Commissioner did not agree to disseminate this consolidated wait-time information to field managers. For years, as we report, IRS has contended that past experience has shown that employee reaction to timeliness measures adversely affected quality. At the same time, the Commissioner noted that some monitoring of wait time occurs by local managers for walk-in sites equipped with the automated reporting system. However,

routine monitoring does not provide overall performance data, and data is only available to some managers whose walk-in sites have the automated system. In our view, there needs to be a balance between measuring quality and timeliness, and too much focus on either could create inappropriate incentives for IRS's walk-in staff. As noted in our report, timeliness is part of IRS's suite of balanced measures for telephone performance. We agree that too much focus on timeliness could create inappropriate incentives for IRS's walk-in staff, but without consolidated timeliness information, field managers would have a difficult time balancing quality and timeliness. We discuss the Commissioner's comments in the "Agency Comments and Our Evaluation" section of the report.

Scope and Methodology

Our assessment of IRS's 2003 filing season performance was based on analyses of IRS data and data obtained from sources outside IRS, interviews with IRS officials and private sector tax preparers, and observations of IRS operations. We testified before the Subcommittee on Oversight on the interim results of our assessment in April 2003.[2] Our assessment of filing season performance over a longer period of time was based, in part, on our past filing season reports.

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

- reviewed and analyzed IRS documents and data, including workload data and data from IRS's current suite of balanced performance measures, which we used to assess performance this year and relative to 2003 goals;[3]
- reviewed historical data that preceded the current performance measures to assess longer term improvements and performance;

[2] U.S. General Accounting Office, *Internal Revenue Service: Assessment of Fiscal Year 2004 Budget Request and 2003 Filing Season Performance to Date*, GAO-03-641T (Washington, D.C.: Apr. 8, 2003).

[3]IRS uses workload indicators, such as the number of returns processed, for purposes of resource planning. It uses balanced measures primarily for gauging business results (quantity and quality measures) in addition to employee satisfaction and customer satisfaction.

- interviewed IRS officials about current operations, performance relative to the past filing season and 2003 performance goals, and significant factors and initiatives that affected performance;

- observed operations at two of the eight processing centers operated by IRS's Wage and Investment Operating Division (W&I) and three of IRS's walk-in locations;

- observed operations at three sites that offer free return preparation as part of IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs;

- analyzed information posted to IRS's Internet Web site, specifically assessing the ease of finding information on the site (i.e., navigation) and the accuracy and currency of data on the site (i.e., content) based on our work reviewing IRS's Web site for years and as experienced Internet Web users;

- reviewed information from a recognized authority on Internet performance that assessed various aspects of IRS's Web site;

- interviewed representatives of various large private organizations that prepare tax returns and trade organizations that represent both individual preparers and tax preparation companies;

- reviewed staff year data for the paper processing, telephone assistance, and walk-in assistance activities; and

- reviewed related congressional testimony and work performed by the Treasury Inspector General for Tax Administration (TIGTA).

This report discusses performance measures that reflect the continuing interest of the Subcommittee—including the quality, accessibility, and timeliness of IRS's performance during the filing season. In November 2002, we assessed the methodologies IRS used for computing its current suite of performance measures and the appropriateness of the performance goals.[4] At that time, we reported that some of the performance measures that IRS and we use to assess various aspects of IRS's filing season

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

performance had attributes of successful performance measures including objectivity and reliability, although in some cases, the measures could be further refined. Even recognizing the limitation of these measures, we have determined that the data we are reporting are sufficiently reliable and useful for assessing IRS's filing season performance.

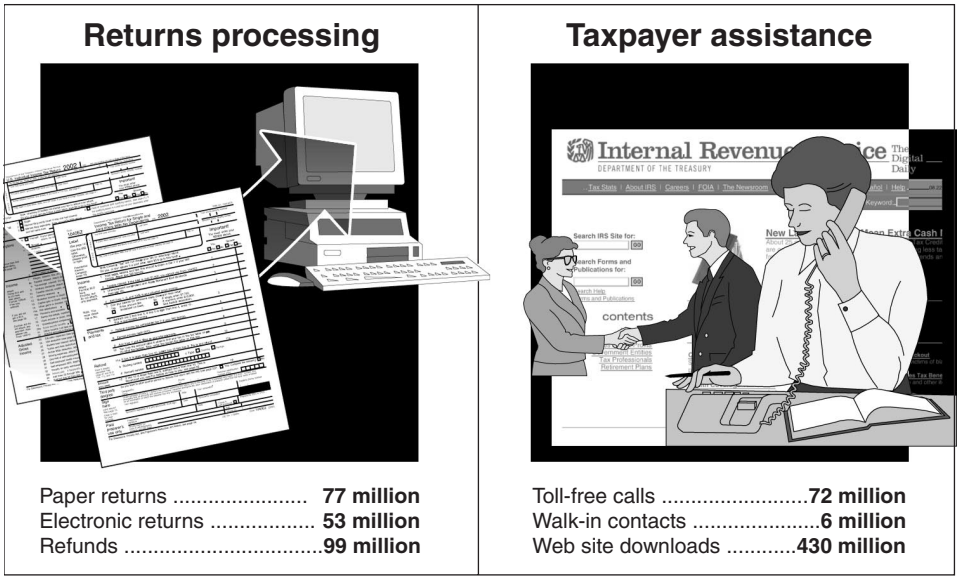
We did our work at IRS headquarters in Washington, D.C.; W&I headquarters and the Joint Operations Center in Atlanta, Ga;[5] and W&I processing centers in Atlanta, Ga, and Holtsville, N.Y.; and walk-in and volunteer locations in Georgia and Louisiana. We selected these offices for a variety of reasons, including the location of key IRS managers and operations. We also selected the Brookhaven Submission Processing Center to visit because IRS was phasing out processing operations at that center, which represents a significant initiative related to both paper processing and electronic filing. We performed our work from January through September 2003 in accordance with generally accepted government auditing standards.

Background

IRS's filing season is an enormous and critical undertaking that includes two key activities—returns processing and taxpayer assistance. As figure 1 shows, during the 2003 filing season, IRS processed an estimated 77 million individual income tax returns filed on paper, an estimated 53 million returns filed electronically, and issued an estimated 99 million refunds to taxpayers. At the same time, IRS provided extensive assistance to millions of taxpayers via phone, walk-in contact, and over its Web site.

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

Figure 1: IRS's Primary Activities During the 2003 Filing Season



Source : IRS and Art Explosion.

Note: GAO analysis of IRS data. The number of paper and electronic returns and refunds are estimated for the time period January 1, 2003, to October 24, 2003; toll-free calls for the time period January 1, 2003, to July 12, 2003; walk-in contacts, which include returns prepared at volunteer sites, for the time period January 1, 2003, to April 19, 2003; and Internet downloads for the time period January 1, 2003, to July 31, 2003. We use different dates for the various areas because those dates best reflect IRS's filing season workload in that area.

To process individual returns in 2003, IRS had eight geographically dispersed W&I submission processing centers that were responsible for processing returns filed on paper, three of which were also responsible for processing tax returns filed electronically; correcting errors made on tax returns; and forwarding the data through a data processing and telecommunications infrastructure to two computing centers, which maintain IRS's primary taxpayer account databases. To help taxpayers comply with their tax obligations, IRS provides various services at its call sites, walk-in sites, volunteer sites, and on the Web site. For example, taxpayers can call IRS toll-free to get answers to tax law questions and order tax forms and publications; get information or help in preparing their returns at IRS walk-in sites; get their returns prepared at community-based coalition and other volunteer organization sites in partnership with IRS; and get information, including answers to tax law questions, through IRS's Web site.

Since the IRS Restructuring and Reform Act of 1998[6] (RRA 98), IRS has been particularly focused on improving taxpayer service. To help achieve this, in 2001, IRS established a suite of balanced performance measurements in accordance with RRA 98 and the Government Performance and Results Act of 1993.[7] The performance measurement system emphasizes accountability for achieving specific results and reflects IRS's priorities, which are articulated in its mission and strategic goals—top quality service to all taxpayers through fair and uniform application of the law, top quality service to each taxpayer in every interaction, and productivity through a quality work environment. IRS has defined three elements of balanced measures to ensure balance among its priorities, such as providing timely and accurate service: (1) customer satisfaction, (2) employee satisfaction, and (3) business results (quality and quantity measures). IRS establishes goals each fiscal year for its performance measures and uses them to hold managers and frontline staff more accountable for improving filing season performance.[8]

IRS's W& I operating division is one of four divisions that IRS established as part of a reorganization that took effect in October 2000. The other three divisions are Small Business and Self-Employed, Large and Mid-Size Businesses, and Tax Exempt and Government Entities.

IRS's Processing of Returns And Refunds Improved, and IRS Closed One Paper Processing Center

We found that on the basis of a comparison of IRS's performance in 2003 and 2002, IRS's processing of individual income tax returns and refunds generally improved in 2003 and IRS exceeded most of its 2003 processing goals. In addition, the growth in electronic filing has enabled IRS to close paper processing operations at one location and reduce the total number of staff devoted to paper processing.

[6]P.L. 105-206.

[7]The Government Performance and Results Act of 1993 (P.L. 103-62) was enacted to hold federal agencies accountable for achieving program results. IRS's balanced measurement system is consistent with the intent of the act.

[8]Although IRS establishes goals for its balanced measures on a fiscal year basis, our assessment of these measures is based on the filing season, when most taxpayers have their only interaction with IRS.

Processing Performance Improved in 2003 Compared To Last Year

IRS's performance improved in 2003 relative to 2002 for seven of the eight measures that are part of its suite of balanced measures it uses to judge its performance in processing individual income tax returns, refunds, and remittances.[9] For example, IRS's measure of the percentage of refunds on returns filed on paper issued within 40 days or less (refund timeliness—paper) increased from 98.2 percent in 2002 to 98.8 percent in 2003. In addition, IRS's measure of the percentage of notices issued to taxpayers that had an error on the notice (notice error rate) decreased from 18.7 percent in 2002 to 9.7 percent in 2003. IRS also exceeded its fiscal year 2003 performance goals for five of the eight measures (including refund timeliness—paper), although it missed its goals for two measures (deposit error rate and letter error rate). We could not compare performance for one measure (refund interest paid) to prior years or its 2003 performance goal, because IRS implemented a programming change that changed the way it calculated the measure for the 2003 filing season and did not have the necessary data to revise the goal for the 2003 filing season. Table 2 in appendix I describes these eight measures and shows the results IRS reported for each of the measures.

Other information supports the conclusion that the 2003 filing season went smoothly and without significant disruptions, as the following examples illustrate.

- Production data that IRS uses to monitor operations and identify and resolve issues that could disrupt operations showed IRS met processing deadlines and did not experience significant disruptions in 2003. These data showed that, on average, IRS met or exceeded its goal for the number of days it takes to process individual income tax returns.

- Directors, managers, and staff at the Atlanta and Brookhaven Submission Processing centers voiced similarly positive views about the filing season and processing, and the Director of Submission Processing attributed improvements during the 2003 filing season to efforts to build upon a largely successful 2002 filing season and the small effect of tax law changes on taxpayers during the 2003 filing season. Appendix II provides more detailed information about the Jobs and Growth Tax

[9]The data we report for 2003 are as of July 31, which were the latest data available at the time we ended our field work. According to IRS officials, the results through July 31 reflect IRS's performance during the filing season.

Relief Reconciliation Act of 2003[10] and its impact on the 2003 filing season and potential impact in 2004.

- The Commissioner of IRS testified in May 2003, before the annual Joint Congressional Review held as part of RRA 98, that IRS had made progress during the 2003 filing season, although he acknowledged that IRS has yet to provide the level of service that taxpayers, the Congress, and IRS agree is necessary.

- The then Acting Commissioner of Internal Revenue testified in April 2003 before the Subcommittee that, among other things, the filing season was going smoothly, with no significant delays in processing returns and issuing refunds. Representatives from the National Association of Enrolled Agents,[11] National Association of Accountants, and H&R Block—the largest tax preparation firm—all expressed positive feedback about IRS's processing operations during this filing season.

- According to TIGTA's report on the 2003 filing season, IRS processed most returns accurately and on time and the filing season went well.[12] TIGTA reported that most of the key tax law changes that affected taxpayers in 2003 were correctly implemented or subsequently corrected after processing began. However, TIGTA identified some areas of the tax laws that were not correctly implemented and could result in loss of taxpayer entitlements and erroneous tax assessments.[13]

[10]P.L. 108-27.

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

[12]Treasury Inspector General for Tax Administration, *The 2003 Filing Season Was Completed Timely and Accurately, but Some New Tax Law Changes Were Not Effectively Implemented*, Reference No. 2004-40-003, (Washington, D.C., 2003).

[13]TIGTA identified taxpayers that were allowed retirement savings contribution credits and student loan interest deductions in excess of the amounts allowed by the new tax law changes, taxpayers with potential unclaimed additional child tax credits, and taxpayers that were allowed a "dual benefit" for the tuition and fees deduction and the education credit.

Closing of Paper Processing Operations at One Center Is a Key Initiative and Represents Payoff From Modernization

The growth in electronic filing and resulting reduction in the number of paper returns received in recent years has enabled IRS to close the paper processing operations at its Brookhaven Submission Processing Center—one of its eight centers for processing individual income tax returns filed on paper. The closure is a key processing initiative in 2003. IRS's long-term strategy for paper processing is to continue closing its processing centers as electronic filing grows and shift the processing of paper returns to the remaining centers. IRS picked Brookhaven for the initial closure based on several factors, including paper return volume, personnel costs, labor availability, and real estate costs. As we noted in our interim testimony on IRS's filing season performance, this closing represents a significant consolidation of IRS's processing operations and a key payoff from modernization, specifically the growth in electronic filing.[14] IRS officials attributed not meeting the goal for the percentage of letters issued to taxpayers with errors (letter error rate), in part, to the loss of experienced and knowledgeable personnel as a result of IRS's announcement that it would be closing some processing centers.

In addition to closing paper processing operations at one of its centers, IRS has seen other improvements in its processing operations over the past several filing seasons. For example, in 1996, the average number of days it took processing centers to process individual tax returns ranged between 8 and 11 days. In 2003, the average number of days ranged between 6 and 8 days. In addition, IRS's measure of the percentage of refunds with IRS-caused errors in the entity information (e.g., name or Social Security number) or refund amount declined from 9.8 percent in 2001 to 5.4 percent in 2003. IRS officials also told us that, since 2001, the eight submission processing centers that process individual tax returns each met or exceeded the established deposit program completion date—the date by which the processing centers must finish processing all tax receipts associated with the April peak processing period.

According to IRS officials, the improvements in processing performance have resulted from a combination of factors, including better data processing equipment and more emphasis on performance management. For example, in the late 1990s, IRS began replacing two key data processing systems, which allowed for faster processing. In addition, IRS officials told us that they now rely more heavily on technology to

[14]GAO-03-641T.

communicate with employees, which they believe allows for faster and more accurate dissemination of information from headquarters to field staff and vice versa. As a result of RRA 98, IRS also has stressed the importance of reaching the goals for its balanced measures as compared to prior years, when IRS placed less importance on these types of measures.

The improvements in processing performance also have enabled IRS to reduce the number of staff devoted to its paper processing operations, while employee satisfaction has increased. According to IRS officials, the number of staff years used in paper processing operations has decreased from 11,542 in fiscal year 2001 to 10,619 in fiscal year 2003, a decrease of about 8 percent.[15] At the same time, the level of employee satisfaction has increased, as 63 percent of the staff assigned to processing expressed being satisfied with their job in 2003, an increase from 54 percent in 2001.

Electronic Filing Grew in 2003, but at Current Growth Rate IRS Will Not Achieve Long-Term Goal

The number of individual income tax returns that IRS received electronically continued to grow and IRS met its goal for the percentage of returns filed electronically. However, the current rate of growth of electronic filing will not allow IRS to achieve its long-term electronic filing goal of 80 percent by 2007,[16] despite numerous initiatives to reduce barriers to and encourage more electronic filing.

Despite Growth in Electronic Filing In 2003, IRS is Not on Track to Achieve Its Long-Term Goal

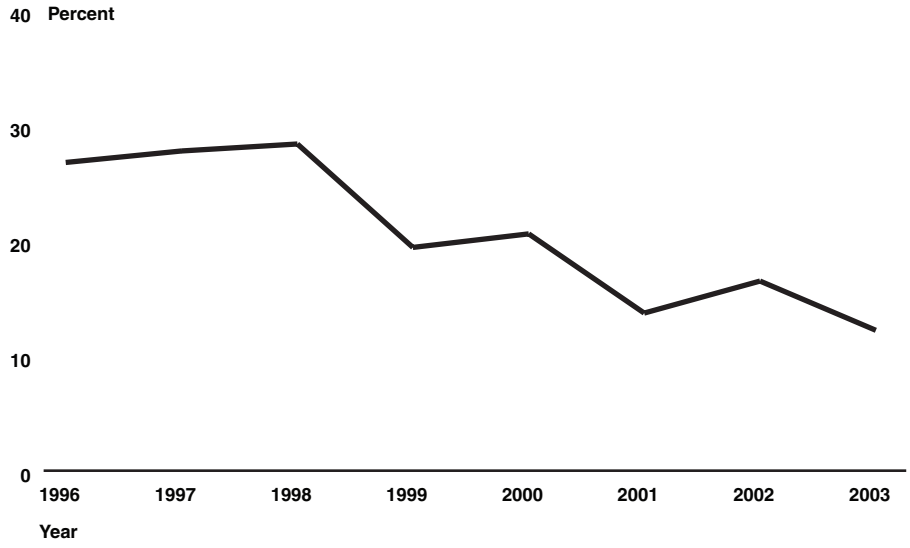
The number of individual returns filed electronically continued to grow in 2003. IRS received an estimated 53 million individual tax returns electronically in 2003, an increase of about 13 percent from 46.9 million in 2002. The percentage of individual tax returns filed electronically reached an estimated 41 percent in 2003, up from 35.9 percent in 2002. While the number of tax returns filed electronically in 2003 fell just short of IRS's performance goal of 54 million, IRS met its performance goal for the percentage of individual tax returns filed electronically.

[15]According to IRS officials, the staff year data for fiscal year 2003 represent actual staff year data through August 2, 2003, plus projected staff year usage through September 30, 2003.

[16]RRA 98 provides, in part, that it should be the goal of IRS to have at least 80 percent of all federal tax and information returns filed electronically by 2007. IRS's goal for individual income tax returns is consistent with this overall goal—80 percent by 2007.

Although electronic filing continues to grow, IRS is not on track to reach its long-term electronic filing goal of 80 percent by 2007. As figure 2 shows, the growth rate from 1996 through 2003 has generally been decreasing. More significantly, the growth rate in 2003 represents the smallest percentage increase in the number of individual tax returns filed electronically since 1996. Some slowing of the growth rate might be expected because, for example, taxpayers most easily attracted to electronic filing have already converted.

Figure 2: Growth Rate in the Number of Individual Tax Returns Filed Electronically, 1996-2003



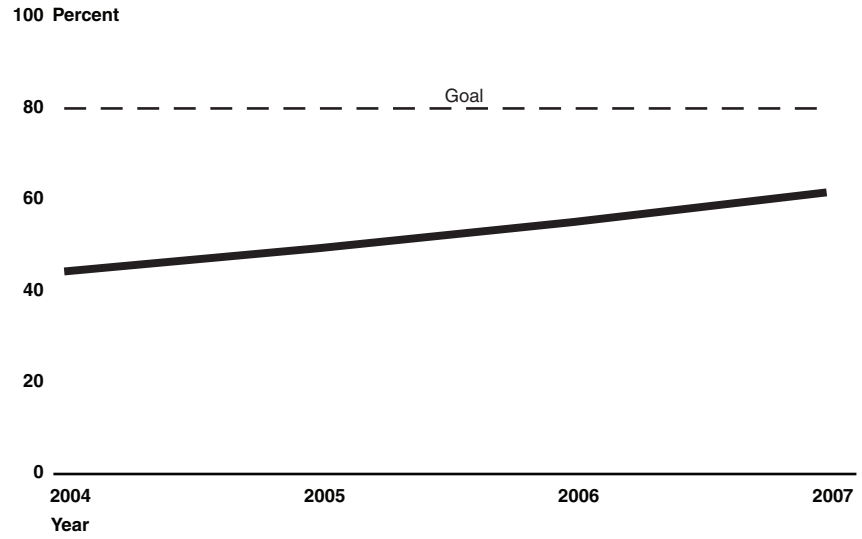
Source: IRS.

Note: GAO analysis of IRS data. The growth rate for 2003 is estimated.

The current growth rate will not enable IRS to meet its long-term goals. We estimate, on the basis of the data in figure 3, that about 64 percent of individual tax returns will be filed electronically by 2007, assuming annual growth rates for individual tax returns filed electronically (about 13 percent) and total number of individual tax returns filed (0.66 percent)[17] continue through 2007. IRS estimated an even lower percentage (54.4 percent) of returns would be filed electronically by 2007.[18] In order to achieve the long-term goal of 80 percent, IRS would have to average more than a 19 percent growth rate in electronic filing from 2004 to 2007. However, in its June 30, 2003, report to the Congress, the Electronic Tax

Administration Advisory Committee (ETAAC) [19] said that the trend of electronic filing is clearly toward lower annual growth rates and as a result, IRS will have difficulty achieving its long-term goal unless it finds additional ways to overcome taxpayer and tax practitioner barriers to electronic filing. To the extent that IRS misses the goal, more resources will have to be devoted to processing paper returns.

Figure 3: Projected Percentage of Individual Tax Returns Filed Electronically, 2004-2007



Source: GAO.

[17] We used a 3-year average for the growth rate in the total number of individual tax returns because the growth rate in 2003 was negative and we believe that a 3-year average is more representative of future growth. IRS officials attributed the negative growth rate in 2003 to the downturn in the U.S. economy.

[18]See *Report of the Joint Committee on Taxation Relating to the Internal Revenue Service* as required by the IRS Reform and Restructuring Act of 1998, JCX-53-03, May 19, 2003.

[19]Electronic Tax Administration Advisory Committee, *Annual Report to Congress*, (Washington, D.C., June 2003). RRA 98 mandated that the Secretary of the Treasury convene an electronic commerce advisory group to ensure that the Secretary receives input from the private sector on IRS's plan to increase electronic filing. ETAAC was created in 1998 in response to that mandate and, among other things, is required to report to the Congress annually on IRS's progress towards meeting the electronic filing goals set in the act.

Note: GAO analysis of IRS data.

IRS Has Taken Various Steps to Encourage More Electronic Filing, which Is Key to Continued Modernization

In 2003, IRS took various steps to encourage taxpayers and practitioners to file electronically. These steps included the following:

- IRS entered into an agreement with the Free File Alliance, a consortium of 17 tax preparation companies, which requires the Alliance to offer free on-line tax preparation and filing services for at least 60 percent (78 million) of all taxpayers during the filing season. Taxpayers access the Alliance from a link on IRS's Web site. As of July 31, 2003, about 2.8 million taxpayers used the free on-line filing services offered by the Alliance, which exceeded IRS's goal of 2.5 million taxpayers.[20] However, IRS officials estimated that only about 1 million of these taxpayers were filing electronically for the first time.

- IRS continued to focus the electronic filing marketing campaign on taxpayers and practitioners who file computer-prepared tax returns on paper. In 2003, IRS planned to spend $15 million, the same as the marketing budget in 2002.

- IRS mailed a package to about 32,000 tax practitioners who prepare either some or all of their tax returns over the computer but submit paper tax returns. The package explains the benefits of electronic filing and encourages taxpayers to file all of their tax returns electronically. This built on an initiative last year where IRS sent letters to selected tax practitioners to encourage them to file returns electronically.

According to IRS officials, these steps contributed to the growth in the number of returns filed electronically in 2003; however, the officials told us that they were unable to link the initiatives to a specific increase in the growth of individual returns filed electronically, with the exception of the Free File initiative.

The growth of electronic filing has been, and continues to be, a key part of IRS's modernization strategy because it allows IRS to control costs, shift

[20] TIGTA confirmed that IRS exceeded its goals for the Free File Alliance, although they had recommendations to improve the program. See Treasury Inspector General for Tax Administration, *Improvements are Needed to Ensure Individual Taxpayers Have an Easy, No-Cost Option to e-file Their Tax Returns*, Reference No. 2003-40-165, (Washington, D.C., 2002).

resources out of labor-intensive paper return processing, improve customer service, and as previously discussed, consolidate submission processing operations at fewer centers. Electronic filing has grown from almost 12 million returns in 1995 to an estimated 53 million in 2003, due to numerous initiatives implemented over the years. For example, in 1999, IRS made electronic filing more appealing by enabling taxpayers who owe money to pay their balance due either by credit card or by direct debit from a checking or saving account. Also, in response to concerns voiced by practitioners that electronic filing was not entirely paperless, IRS began testing alternative signature options that allowed certain electronic filers to sign their returns electronically and thus avoid having to send any paper to IRS and expanded those initiatives in 2000. Additionally, each year IRS has expanded the list of forms and schedules that can be filed electronically. As a result, according to IRS, 99 percent of all individual forms and schedules can be filed electronically today.

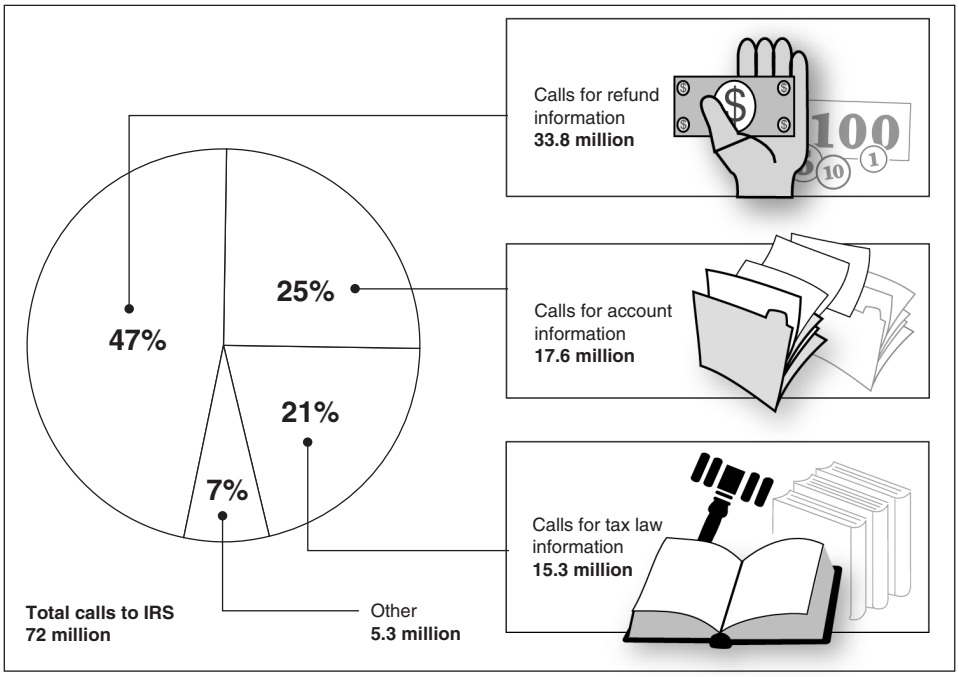
Telephone Service Showed Improvement in Accessibility but Not Accuracy

IRS provided more accessible telephone service in 2003; however, its performance in providing accurate responses to taxpayers declined, and IRS did not achieve most of its 2003 performance goals, primarily related to accuracy. IRS implemented several initiatives in 2003 that likely contributed to improved accessibility. Over a longer period of time, IRS has significantly improved both the accessibility and accuracy of its telephone service, which represents a payoff from its modernization efforts.

Telephone Service Was More Accessible, Although Not More Accurate in 2003

IRS receives millions of calls to its toll-free network during the filing season when taxpayers, inquire about tax law issues, the status of their refunds, or issues regarding their accounts, among other things. As figure 4 shows, IRS received about 72 million calls in 2003, about 31 percent fewer calls than it received in 2002. Figure 4 also shows that calls about the status of refunds accounted for almost half of total calls received through mid-July 2003.

Figure 4: Reasons Taxpayers Called for Telephone Assistance during the 2003 Filing Season

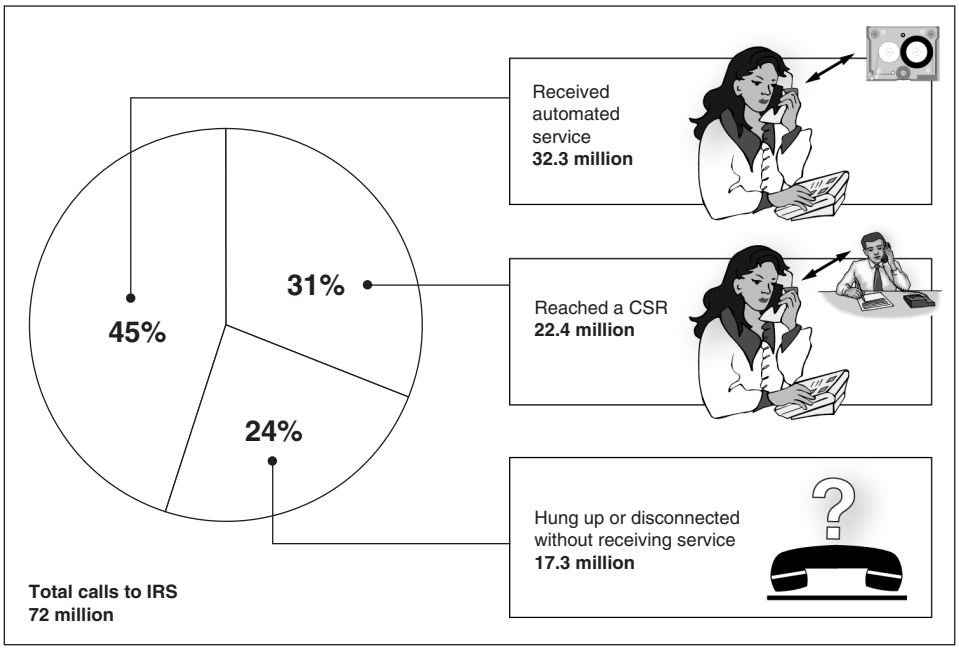


Source: IRS and Art Explosion.

Note: GAO analysis of IRS data. The "Other" category includes special telephone numbers, such as the one for victims of the September 11, 2001, terrorist actions, and calls that were abandoned or that reach a busy signal from IRS's automated-service-only (TeleTax) number. In this figure, total calls to IRS refer to the number of callers that tried to reach a Customer Service Representative (CSR) or IRS's TeleTax number. Data cover January 1 through July 12, 2003.

Figure 5 shows that of the 72 million calls to IRS during the 2003 filing season (1) less than half of the calls resulted in the caller receiving automated service, (2) about one third of the calls were handled by a Customer Service Representative (CSR), and (3) about one fourth of the calls resulted in the caller hanging up or being disconnected without receiving service.

Figure 5: How IRS Handled Calls for Telephone Assistance during 2003 Filing Season



Source: IRS and Art Explosion.

Note: GAO analysis of IRS data.

IRS's overall performance in answering calls during the 2003 filing season was mixed. As table 1 shows, IRS provided more accessible telephone service in 2003 compared to 2002 as (1) a greater percentage of callers attempting to reach a CSR received service, (2) a greater percentage of callers attempting to access automated service completed their calls, (3) a greater percentage of callers reached a CSR within IRS's threshold of 30 seconds or less, and (4) callers spent less time waiting for assistance on average. However, table 1 also shows that IRS's performance on various accuracy measures declined in 2003 as compared to 2002.

Table 1: IRS Tax Filing Season Telephone Assistance Performance, 2000-2003 Filing Seasons

	2000	2001	2002	2003	
Accessibility measures[a]	**Actual**	**Actual**	**Actual**	**Actual**	**Goals**
CSR level of service[b]	[j]	68%	71%	85%	72%
Automated completion rate[c]	47%	47%	36%	59%	N/A[k]
Assistor response level[d]	39%	39%	51%	56%	N/A[k]
Average speed of answer[e]	237 seconds	337 seconds	268 seconds	159 seconds	N/A[k]
Accuracy measures[a]					
Tax law quality rate[f]	73% +/- 2%	75% +/- 1%	82% +/- 1%	80% +/- 1%	84%
Accounts quality rate[f]	59% +/- 2%	69% +/- 1%	76% +/- 1%	70% +/- 1%	76%
Tax law customer accuracy rate[g]	[j]	79% +/- 1%	85% +/- 1%	81% +/- 1%	87%
Accounts customer accuracy rate[g]	[j]	88% +/- 1%	91% +/- 1%	89% +/- 1%	91%
Tax law timeliness rate[h]	[j]	[j]	[j]	99% +/- 1%	N/A[k]
Accounts timeliness rate[h]	[j]	[j]	[j]	97% +/- 1%	N/A[k]
Tax law professionalism rate[i]	[j]	[j]	[j]	100% +/- 1%	N/A[k]
Account professionalism rate[i]	[j]	[j]	[j]	100% +/- 1%	N/A[k]

Source: IRS.

[a]Accessibility measures are based on actual counts from January 1 through mid-July. Accuracy measures are based on representative samples and are estimated at the 90-percent confidence level and cover the period from January through June.

[b]This measure is intended to show the percentage of callers who wanted to speak to a customer service representative (CSR) that got through and received service.

[c]This measure is intended to show the percentage of total callers who completed a selected automated service. IRS did not establish a goal for 2003 because the indicator is not an official measure.

dIRS uses the word "assistor" interchangeably with CSR. This measure shows the percentage of callers that waited 30 seconds or less before speaking to a CSR. IRS did not establish a goal for 2003 because the indicator is not an official measure.

[e]The average number of seconds callers waited before speaking to a CSR. IRS did not establish a goal for 2003 because the indicator is not an official measure.

[f]The percentage of calls in which CSRs followed all IRS procedures for the call type and provided correct answers.

[g]The percentage of calls in which CSRs provided correct answers for the call type and took the appropriate follow-up resolution action.

[h]The percentage of calls in which CSRs used their time efficiently when responding to taxpayers inquires. IRS did not establish goals for 2003 for these measures because they were new in 2003.

iThe percentage of calls in which CSRs used effective communication techniques to promote a positive IRS image when responding to taxpayer inquires. IRS did not establish goals for 2003 for these measures, because they were new in 2003.

jComparable data do not exist.

kNot applicable.

IRS exceeded its goal for CSR level of service during the 2003 filing season. However, IRS did not set goals for the three other workload indicators of accessibility shown in table 1 because it did not consider these indicators to be performance measures. We believe these three indicators are important because they measure taxpayers' access to automated service and gauge the taxpayer's experience when attempting to reach a CSR.[21] As we reported in November 2002, IRS removed the automated completion rate as a measure of the effectiveness of serving taxpayers through automation.[22] IRS did not agree with our recommendation to reinstate this measure as a means of determining the level of service provided by automation.[23] In December 2002, we also reported that IRS stopped using the assistor response level and average speed of answer measures to assess its performance in providing telephone service because IRS's telephone call sites had no control over these measures.[24] In response to our recommendation that IRS reinstate a telephone assistance caller wait-time measure, IRS plans to reintroduce a wait-time measure for fiscal year 2004. This measure—average speed of answer—is intended to gauge the customer's experience when attempting to reach a CSR.

IRS officials attributed the improvement in the accessibility of telephone service to several factors. For example, IRS experienced a lower than expected number of calls in 2003—about 72 million calls received in 2003 as compared to more than 104 million in 2002. IRS officials told us that

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

[22]GAO-03-143.

[23] IRS based its disagreement on the data on automated calls not being good enough to merit attention as a balanced measure. While we recognized that there were data weaknesses with the measure, our recommendation also called for IRS to revise the formula before including it among its balanced measures. See GAO-03-143.

[24]U.S. General Accounting Office, *IRS's 2002 Tax Filing Season: Returns and Refunds Processed Smoothly; Quality of Assistance Improved*, GAO-03-314 (Washington, D.C.: Dec. 20, 2002).

there were relatively few tax law changes that had an impact on taxpayers during the 2003 filing season as compared to last year, when IRS received a significant number of calls related to the rate reduction credit. Another possible reason for the improvement in accessibility could be the fact that IRS began using CSRs to route tax law related calls in 2003. IRS made this change because in 2002 (1) some callers spent up to 2 minutes navigating the menu options, (2) other callers spent up to 3 minutes talking to one CSR only to be transferred to another CSR for assistance, and (3) more than 50 percent of the calls received by CSRs were re-routed to other CSRs for some tax law topics. IRS officials told us that they made this change to improve performance during the filing season and improve the customer experience since many customers with tax-law-related calls had difficulty using the menu options.

IRS did not meet its goals for any of its accuracy measures during the 2003 filing season, and its performance relative to these measures declined compared to last year. IRS also began establishing baseline data for four new accuracy measures and has not yet set goals for these measures. These new measures assess how well CSRs manage their time and whether CSRs promote a positive IRS image when communicating with telephone callers. IRS plans to replace its existing tax law and account quality measures and use the new timeliness and professionalism measures and current customer accuracy measures to assess the accuracy of its performance in providing telephone assistance beginning in fiscal year 2004. According to IRS, the new timeliness and professionalism measures are based on what customers indicated mattered most to them and they are designed with consideration to industry best practices. Although IRS began an analysis to determine whether there is a correlation between how IRS rates its CSRs on these new measures and how taxpayers report being treated in the customer satisfaction surveys, the analysis was not completed when we completed our field work.

IRS attributed the lack of improvement in the accuracy of telephone service to several factors. For example, IRS officials attributed the decline in the accounts quality rate to the training of newly hired CSRs on account-related topics instead of the easier refund topics. In addition, with the introduction of the Internet "Where's My Refund" feature, IRS received fewer refund inquires, which resulted in more complex calls being answered by CSRs. This feature is discussed in more detail in the "IRS's Web Site Performance Showed Some Improvement" section. IRS identified several items that contributed to the decrease in the tax law customer accuracy rate, including the fact that CSRs had difficulty adapting to the

changes in the guide they use to query callers. IRS officials also said another explanation for the lack of improvement in providing accurate information to callers is that some of IRS's telephone call sites were transferred from one operating division to another division, which resulted in CSRs moving from one area of expertise to another area and needing to be retrained.

IRS Implemented Several Initiatives in 2003 to Improve Telephone Service

IRS implemented several initiatives to improve telephone service in 2003. According to IRS officials, these initiatives were instrumental in IRS improving access to telephone service during the 2003 filing season, although it is difficult to determine specific cause/effect relationships between the initiatives and improvements in telephone service. Examples include the following.

- IRS established six new toll-free telephone numbers to better reflect operating division responsibility and accountability—the Refund Hotline, Refund Callback Line, Business and Specialty Tax Line, and three new customer response numbers. These new numbers are part of IRS's new toll-free strategy to improve the customer's experience by targeting customer segments and creating more accountability for the operating divisions. According to IRS officials, the three new customer response numbers replaced one number that IRS used in the past and more closely correspond to the operating division responsible for a particular notice.

- IRS implemented a new feature on its Web site that enabled taxpayers to find out if IRS received their returns and whether their refunds had been processed, as discussed in the "IRS's Web Site Performance Showed Some Improvement" section of this report. The new feature provides taxpayers with another option to receive assistance while reducing the demand for toll-free refund calls. According to IRS's analysis for the period of January 1 to June 30, 2003, this new feature handled 32 percent of all IRS contacts from taxpayers with refund questions and reduced the toll-free refund call demand.

Telephone Service Has Improved over the Past Several Filing Season Partly as a Result of Modernization

Since the mid-1990s, IRS has significantly improved its telephone service. Although telephone service is not yet at the level desired by taxpayers and the Congress, the improvements to date represent payoffs from IRS's modernization efforts. For example, in 1997, about 49 percent of calls to IRS primary assistance lines either received a busy signal or were

abandoned before being answered, as compared to about 32 percent of calls in 2003. In addition, the percentage of calls where taxpayers attempted to reach a CSR and received service increased from about 68 to 85 percent between the 2001 and 2003 filing seasons. With regard to accuracy, the percentage of tax-law-related calls in which CSRs followed all IRS procedures and provided the correct answer increased from 73 percent in 2000 to 80 percent in 2003, while the percentage of account-related-calls in which CSRs followed all IRS procedures and provided the correct answer also increased from 59 to 70 percent between the 2000 and 2003 filing seasons.

IRS's telephone service improvements over the years are, in part, the result of numerous modernization initiatives sustained over time, although limited data exist to link specific initiatives to improvements. In 1998, IRS revised its method of distributing calls, shifting from an area-code-based routing system to a nationwide call allocation system. In 1999, IRS centralized its toll-free telephone operation at the Joint Operations Center to enable it to route calls on the basis of availability of CSRs. Similarly, from 2000 through 2003, IRS made several business process changes and implemented new technology. For example, in 2001, IRS shifted millions of calls to an automated answering system in order to free CSRs to answer more complex calls. IRS also enhanced its call routing ability in 2002 by implementing "network call screening" where callers, through the use of menu options, indicated their subject matter prior to being routed to a call site. Regarding accuracy, IRS began centralized monitoring of account- and tax-law-related calls in 1998. In addition, a desktop electronic version of IRS's guide used to answer tax-law-related questions was made available to all CSRs. The guide has been improved and now contains automated links to on-line research material. Using this same technology, in 2002, IRS automated the guide that CSRs use to answer account-related questions. Finally, because of modernization, IRS's telephone service has improved over the years while maintaining about the same workforce level in its telephone operations. For example, IRS expended about 8,285 staff years in fiscal year 1999 providing toll-free telephone service compared to 8,340 staff years in fiscal year 2002.

Quality of Walk-In Assistance Improved in 2003, but Assessing Long-Term Improvements Is Difficult Because of Lack of Data

The quality of service provided at IRS's walk-in sites showed some improvement in 2003, and IRS met some of its 2003 performance goals.[25] In addition, IRS continued its initiative to shift return preparation work to its community-based coalitions and other volunteer organizations, which contributed to a decline in the number of taxpayers assisted at IRS's walk-in sites. However, our assessment was limited by the fact that IRS did not report performance for the timeliness of walk-in assistance or the accuracy of account assistance in 2003. Over the last several years, IRS has made efforts to standardize and improve walk-in assistance, but a lack of long-term performance data makes it impossible to quantify improvements.

Tax Law Accuracy and Volunteer Assistance Increased in 2003, but IRS Did Not Report on Timeliness and Account Assistance

The accuracy of tax law assistance provided at walk-in sites improved between 2002 and 2003 on the basis of reviews conducted by TIGTA.[26] From January through April 2003, TIGTA found that about 70 percent of its questions were answered correctly, an increase of 20 percentage points over the same time period last year, but less than IRS's 2003 performance goal of 80 percent. TIGTA also found that the number of times IRS employees referred TIGTA auditors to a publication instead of answering tax law questions—which had been an issue last year—declined by about 87 percent. TIGTA attributed the increased accuracy rates to IRS (1) revising the guidelines used by walk-in staff, (2) certifying the proficiency of walk-in staff in various tax law categories, and (3) immediately addressing the results of TIGTA reviews at walk-in sites. As they did last year, field assistance officials continue to disagree with the methodology used by TIGTA to calculate tax law accuracy because TIGTA counts referrals to IRS publications as incorrect.[27] However, as we stated last year, we believe that the complexity of tax laws and varying education levels among taxpayers seeking assistance suggest that requiring field assistance

[25]At any one of IRS's more than 400 walk-in sites, taxpayers can obtain (1) forms and publications; (2) assistance with their tax accounts; (3) answers to tax law questions; (4) limited return preparation assistance; and (5) various other types of assistance, such as help getting a taxpayer identification number.

[26]In 2001, the Congress directed TIGTA to review the accuracy of tax law assistance provided by all of IRS's walk-in sites, S. Rep. No. 107-57 (2001). From January through April 2003, TIGTA reviewers visited 72 walk-in sites and asked a total of 283 tax law questions.

[27]TIGTA counts referrals as incorrect when the IRS employee merely provided the publication, without walking the customer through it to identify the answer, as required by established field assistance procedures.

employees to walk the taxpayer through a publication to identify the correct response is a necessary procedure that should be followed in practice for their response to be considered correct.[28]

In addition to TIGTA reviews of tax law accuracy, IRS began measuring the accuracy of return preparation assistance provided at walk-in sites in January 2003, using existing data generated by the submission processing centers.[29] IRS data shows that from January 1 to May 3, 2003, the accuracy rate for returns prepared at walk-in sites was 99.8 percent, which exceeded IRS's performance goal of 91 percent. IRS officials attributed the high accuracy rate to the use of standardized software by walk-in staff to prepare and electronically file returns and the lack of significant tax law changes in 2003 as compared to last year. IRS also partners with community-based coalitions—a collection of local organizations that help low-income individuals and families—and other volunteer organizations to provide free return preparation assistance to taxpayers as part of its VITA and TCE programs.[30] According to IRS officials, from January 1 to April 19, 2003, the accuracy rate for returns prepared at VITA sites was 98.1 percent and 96.5 percent for returns prepared at TCE sites.

In 2003, the number of taxpayers that received return preparation assistance from community-based coalitions and other volunteer organizations increased; at the same time, the number of taxpayers assisted at IRS's walk-in sites continued to decline. Figure 6 shows the growth in the number of returns prepared by community-based coalitions and other organizations, a decline in the number of taxpayers receiving assistance at IRS walk-in sites, and a decline in the number of returns prepared at IRS walk-in sites.[31]

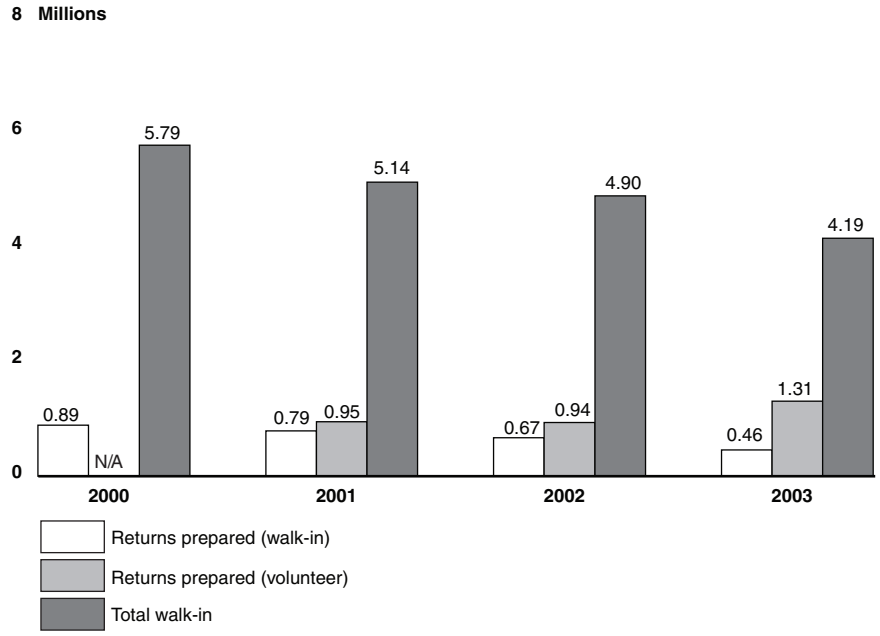
[28]GAO-03-314.

[29]IRS considers a return as being accurate if no math errors (obvious errors such as mathematical errors, omitted or inconsistent data, or other inconsistencies) are identified on the return.

[30]These programs use IRS-trained volunteers to help prepare basic tax returns for taxpayers with special needs, including people with disabilities, those with low or fixed incomes, non-English speaking people, and the elderly, during the filing season.

[31]IRS's walk-in sites provide return preparation assistance to taxpayers taht meet certain income requirements. For the 2003 filing season, the income ceiling for return preparation assistance was $35,000.

Figure 6: Assistance Provided by IRS Walk-in and Volunteer Sites, 2000-2003 Filing Seasons



Source: IRS.

Note: GAO analysis based on IRS data. Total walk-in includes all face-to-face assistance. It does not include the number of taxpayers assisted by walk-in employees via telephone or correspondence, which ranged from about 96,000 in 2000 to over 150,000 in 2003.

The number of returns prepared at volunteer sites was not available for the 2000 filing season.

The time periods covered by this figure each began on January 1 and ended on April 22, 2000, April 21, 2001, April 20, 2002, and April 19, 2003.

IRS officials attributed the overall decline in the number of taxpayers receiving assistance at walk-in sites to (1) IRS's strategy to reduce the amount of return preparation assistance offered at walk-in sites,[32] (2) taxpayers use of more convenient means to obtain services that do not require face-to-face contact, such as through IRS's toll-free network and Web site, and (3) the increasing number of taxpayers that receive return preparation assistance at community-based coalitions and other

[32]IRS planned to reduce return preparation assistance by 20 percent in both fiscal years 2003 and 2004 and expects walk-in sites to provide additional tax law assistance, as well as perform some compliance functions.

organizations as part of IRS's VITA and TCE programs.[33] These officials also told us that the decline in the number of taxpayers assisted at walk-in sites helped IRS reduce its reliance on compliance staff. Traditionally, IRS has detailed staff from its compliance functions, such as Examination and Collection, to help provide walk-in assistance. In 2003, IRS was able to reduce the number of compliance staff that helped to provide walk-in assistance during the filing season by about 118 staff years (66 percent) during the filing season. IRS also reduced the total number of staff years used to provide walk-in assistance during the 2003 filing season by about 14 percent as compared to the same time period in 2002.

IRS did not report performance for two key indicators of walk-in service in 2003—timeliness and accuracy of account assistance. For years, IRS officials have contended that, when timeliness is monitored at its walk-in sites, employees have felt in a hurry to provide assistance to taxpayers, which could diminish quality. As a result, IRS discontinued wait time as an official measure of field assistance in 2001 and no longer required walk-in sites that were manually capturing and reporting wait-time information to do so in 2002. While we did not agree with IRS's decision to discontinue wait time as an official measure, we did agree with the decision to stop manual tracking of wait time because it was not practical or accurate to do so.[34] This year, IRS no longer required that about 140 of its 400 walk-in sites equipped with an automated system, known as the Queuing Management System, which captures wait-time information to report that information to upper-level management. Further, IRS did not consolidate and disseminate this wait-time information to field managers. According to field assistance officials, this decision was made for the same reason they discontinued wait time as an official measure—because walk-in staff felt pressured to hurry assistance. However, without timeliness information, IRS lacks information about a key component of service, which makes it difficult to balance timeliness and quality. As a result, walk-in staff could take excessive time providing assistance to a few taxpayers regardless of the impact on the wait time for other taxpayers. For this reason, IRS includes timeliness as part of its suite of balanced measures for monitoring telephone operations. In addition, taxpayers reported in customer

[33]According to IRS, the number of community-based coalitions increased from 6 in fiscal year 2000 to 150 in fiscal year 2003. In 2004, IRS plans to continue expanding VITA and TCE sites in underserved areas, such as rural communities, while improving the operational effectiveness and productivity of existing partnerships.

[34]GAO-03-143 and GAO-03-314.

satisfaction surveys that promptness of service was by far the highest ranked improvement priority for its walk-in sites.

IRS also does not presently know the accuracy of the account assistance it provides to taxpayers at walk-in sites. Account assistance differs from tax law assistance—account assistance includes answers to questions about taxpayers' refunds, payments, and tax debts. IRS established baseline data for an account accuracy measure in 2002; however, IRS subsequently decided not to measure account accuracy in 2003 so that its quality reviewers could focus on conducting reviews of tax law accuracy at walk-in sites. IRS officials stated that they are developing a plan for measuring account accuracy and hoped to begin using quality reviewers to measure the accuracy of account assistance in September 2003. Account accuracy is one of the balanced measures of telephone performance.

IRS Took Steps in 2003 to Improve Walk-in Service

IRS took several steps to improve walk-in service in 2003. According to field assistance officials, these steps likely helped improve the accuracy of tax law assistance, although they have not conducted any analysis to determine the impact of these steps on any particular aspect of quality of walk-in service. The following are three examples of steps intended to improve accuracy.

- Field assistance managers began certifying the proficiency of walk-in staff in various tax law topics in March 2003. According to field assistance officials, walk-in staff that do not pass the certification in a particular topic cannot assist taxpayers on that topic, and managers are required to develop a plan to assist the staff in improving proficiency in that topic.

- Field assistance managers and quality reviewers began conducting monthly reviews of tax law accuracy at walk-in sites. IRS data show that from January to April 2003, its reviewers reported receiving correct responses to about 88 percent of the questions asked of walk-in staff, which is higher than the results reported by TIGTA for the same time period.

- IRS began training walk-in staff in fiscal year 2003 on how to guide taxpayers through a publication to answer a tax law question, instead of merely providing the taxpayer with the publication and having the taxpayers figure out the answers by themselves. As part of this training, IRS also developed guidance for walk-in staff to use that is similar to

what CSRs use for answering tax law questions received via IRS's toll-free telephone network. In addition, field assistance procedures emphasize that walk-in staff should not give taxpayers a publication in lieu of providing an answer to their tax law question.

IRS Lacks Data for Assessing Long-term Improvements in Walk-In Assistance

Over the last few years, IRS has made efforts to standardize walk-in assistance, but a lack of performance data makes it difficult for IRS and us to quantify long-term improvements. As we reported in December 2000, IRS's National Office did not implement a quality review program for walk-in sites until 2000.[35] Before that time, IRS lacked meaningful nationwide data to assess the performance of its walk-in sites in terms of quality, timeliness, and taxpayer satisfaction. Despite this fact, field assistance officials believe that there have been improvements in the quality of services provided by walk-in sites in recent years, based on a number of factors. For example, in 2001, IRS reorganized its walk-in sites and established a set of measures, such as tax law accuracy, to assess performance and to help provide consistency and standardization. As a result, field assistance officials told us that walk-in sites now capture workload data, for example, more consistently, which makes the data more useful to management and which indicates an improvement in recent years. The officials told us that, in 2002, IRS also began providing more consistent and standardized services, better training, and improved access to taxpayer account information at walk-in sites. In addition, IRS began refining the process for referring complex tax law questions that are beyond the scope of training that walk-in staff normally receive to expert field assistance, toll-free telephone assistance CSRs, or compliance staff. Finally, as previously noted, IRS has also been able to reduce its reliance on compliance staff over the last few years, allowing it to redirect those resources to higher priority, compliance-related work.

IRS's Web Site Performance Showed Some Improvement

In 2003, IRS's Web site showed some improvement and taxpayers used it more than in 2002. For example, from January 1 to July 31, 2003, more than 430 million forms, publications, and other documents had been downloaded from the Web site, a 22 percent increase over the same time period last year.

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

Keynote—an independent Web site rater and a recognized authority on Internet performance—reviewed the average delivery time and availability[36] of IRS's Web site and reported that the site performed well, although the Web site did exhibit some minor problematic periods. Keynote reported that from April 11 through April 16, 2003, IRS's home page was delivered in around 1 second and the Web site had an average availability rate of 99.35 percent.[37] However, on April 14, 2003, Keynote reported that the site's average delivery time experienced slowdowns of up to 6 to 8 seconds from 5 p.m. to 9 p.m., and its average availability rate decreased to less than 90 percent. In 2002, Keynote reported that the Web site's average delivery time was less than 1 second and its availability averaged close to 100 percent for most of the filing season.

Although Performance Declined for Questions Received Via IRS's Web Site, Ease of Use Improved

One important feature of IRS's Web site is the ability of taxpayers to ask tax law and procedural questions of IRS via the Internet on its Web site. IRS data indicate that its performance in answering questions received from taxpayers via the Internet worsened during the 2003 filing season as compared to 2002. IRS took 3.7 business days on average to respond to those questions in 2003, as compared with 2.1 business days in 2002 and its 2003 performance goal of 2 business days. In addition, from January 1 to May 31, 2003, IRS responded accurately to 73.7 percent of the questions, as compared to a 77.6 percent accuracy rate for the same time period in 2002 and its 2003 performance goal of 83.5 percent. IRS officials attributed the increase in the average time to respond and the decrease in the accuracy rate to the increased volume and complexity of the questions. Although the number of questions received from taxpayers over the Internet is small when compared to the number of questions received over the telephone, providing accurate responses to these questions is particularly important

[36]According to Keynote, availability is the percentage of time the Web site's home page downloads fully and average delivery time is the time it takes for the home page to fully download from the time the user hits the "enter" key on the keyboard. According to IRS, a home page is charged with an error and therefore receives a lower percentage of availability even if a graphic that has nothing to do with the user's ability to get pertinent content information from the page does not download properly. As such, according to IRS, the measure does not reflect whether the Web site itself is available or not. Also, according to IRS, errors can be the result of heavy traffic on the Internet in general and may have nothing to do with the home page.

[37]Keynote measured the average delivery time and availability of IRS's Web site from 5 p.m., Eastern Daylight Time (EDT), on April 11, 2003, to 9 a.m., EDT, on April 16, 2003.

because of the potential for widespread dissemination of inaccurate responses to other taxpayers.

We found that IRS's Web site was more user friendly in 2003. For example, we did not find broken or inappropriate links between pages as we have found in previous years. IRS also added an index to the Web site, making it possible for users to search for forms, instructions, or publications by topic. In addition, IRS resolved our concern that the search functions do not always make the most pertinent information readily available. In April 2003, we testified that when we typed, "earned income tax credit" into the forms and publication search function, Publication 596—the primary publication on the earned income tax credit—was the 70th item on the list, and we had to scroll through seven pages to find it. However, in June 2003, we again typed "earned income credit" into the search function and found the publication was the 9th item on the list and on the first page. IRS officials attributed the improvement in the search function results, in part, to working with contractors to (1) determine what the expected search results should be for the most frequently used search terms, (2) adjust the search results to ensure that those items appear at the top of the list, and (3) expand the thesaurus within the search engine to include an updated repository of the most frequently searched words, phrases, and variations.

IRS Continues to Offer New Services to Increase Web Use, a Key Part of Modernization

IRS offered new services on the Web site for the 2003 filing season that represent payoffs from modernization. For example, IRS implemented a refund status check (Where's My Refund) feature on the Web site that enabled taxpayers to find out if IRS received their returns and whether their refunds were processed. As of June 9, 2003, IRS data show that about 11 million taxpayers obtained data on their refund status using this feature. The ability of taxpayers to check the status of refunds on-line is particularly important because it has contributed to the decreased number of refund call inquiries handled by IRS's toll-free telephone operations and has the potential to further decrease those calls. Taxpayers responding to a survey on the feature provided favorable reviews—about 91 percent of the survey respondents said they were satisfied or somewhat satisfied with the overall service provided by the feature. In January 2003, IRS also made available on the Web site a direct link to the Free File program offered through IRS private-sector partners.

IRS's Web site is a critical part of modernization because, according to IRS, it is more cost effective than other methods of providing taxpayer assistance, such as answering telephone calls. As discussed above, the

initiative that allowed taxpayers to check the status of their refunds shows the potential of the Web site to provide more cost-effective services. Taxpayer's use of IRS's Web site and the services IRS offers on its Web site have grown considerably over the past several filing seasons, another indication that taxpayers are receiving payoffs from modernization. For example, by July 31, 2003, taxpayers already had downloaded more than 430 million forms and publications compared to the 129 million for about the same time period in 2000.

Conclusions

IRS's performance during the filing season is important because it affects so many taxpayers. The filing season also plays a crucial role in collecting the revenue that finances the federal government. The improvements seen this year, as well as over the past several years, are part of the payoff from IRS's ongoing modernization efforts.

One feature of modernization that has contributed to IRS's improved performance is the greater reliance on performance measures to manage its operations. A few years ago, IRS established performance measures that are intended to balance priorities such as quality, timeliness, customer satisfaction, employee satisfaction, and outcomes. The measures IRS uses to assess its performance in providing telephone service are an example of how IRS has achieved this balance. However, as a result of IRS's decision in 2003 to stop requiring sites equipped with an automated system for reporting wait-time data to report that information, IRS's measures to assess walk-in assistance lack such balance. Finally, managers do not have information on this important aspect of quality and without the balance a timeliness measure would offer, staff might focus on providing accurate assistance to a few taxpayers regardless of the impact on the wait-time for other taxpayers.

Recommendation for Executive Action

We recommend that the Commissioner of Internal Revenue direct the appropriate officials to require that IRS consolidate and disseminate wait-time information to field managers based on information from sites equipped with an automated system that can capture wait-time data, in order to assess this important aspect of quality.

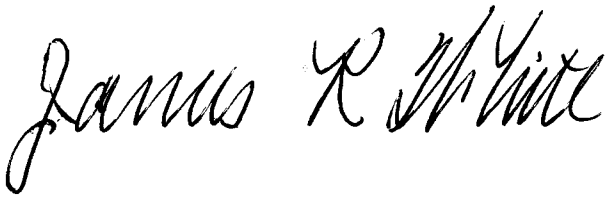
Agency Comments and Our Evaluation

The Commissioner of Internal Revenue provided written comments in an October 29, 2003, letter (see app. III). The Commissioner noted that IRS's filing season readiness process provided the framework and oversight to ensure that IRS was well prepared for the 2003 filing season. The Commissioner partially agreed with our specific recommendation, stating that IRS will require walk-in sites equipped with Q-Matic to report wait-time information on a quarterly basis and that the automated wait-time information available from these locations would provide valuable data for an assessment of overall trends and relationships in timeliness and quality. However, the Commissioner did not agree to disseminate this consolidated wait-time information to field managers. For years, as we report, IRS has contended that past experience has shown employee reaction to timeliness measures tended to increase the likelihood of inaccurate or incomplete answers. At the same time, the Commissioner noted that routine monitoring of wait time occurs by local managers for walk-in sites equipped with Q-Matic. However, routine monitoring does not provide overall performance data and timeliness data is only available to some managers locally. In our view, there needs to be a balance between measuring quality and timeliness and too much focus on either could create inappropriate incentives for IRS's walk-in staff. As noted in our report, IRS already consolidates and reports tax law and return preparation accuracy at its walk-in sites and plans to do the same for accounts accuracy. Without consolidated timeliness information, field managers would have a difficult time balancing quality and timeliness.

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

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

Sincerely yours,



James R. White
Director, Tax Issues

Data on IRS's Processing Performance Relative to Fiscal Year 2001-2003 Performance and Fiscal Year 2003 Goals

As table 2 shows, (1) the Internal Revenue Service's (IRS) performance in 2003 improved over last year for seven measures and (2) IRS exceeded its performance goals in 2003 for five measures but missed its goals for two measures (deposit error rate and letter error rate). IRS's performance in 2003 could not be compared with its performance in 2002 and prior years or 2003 goal for one measure (refund interest paid) because IRS revised the way the measure was computed and did not have the necessary data available to revise the goal. Table 2 also shows that IRS's processing performance has generally improved for each of its measures since 2001.

Table 2: IRS's 2001-2003 Tax Filing Season Processing Performance

Measure Name	Definition	Fiscal year 2001 actual[b]	Fiscal year 2002 actual	Fiscal year 2003 actual (through July 31)	Fiscal year 2003 goal	Comments
Deposit error rate	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted any overpayment credited to next year's tax bill.	5.0%	4.8% +/- 0.3%	4.4% +/- 0.3%	2.4%	Performance improved, but performance goal not met. According to IRS officials, the goal was too aggressive.
Deposit timeliness–paper	Interest value of money not deposited by the business day after receipt per $1 million in deposits. Measure assumes an 8 percent interest rate.	$748	$578	$542	$573	Performance improved and performance goal exceeded.
Letter error rate	Percentage of letters issued to taxpayers with errors (includes systemic errors).[c]	Not comparable because of revisions to the measure.	7.4% +/- 0.6%	7.2% +/- 0.5%	6.2%	Performance improved, but goal not met. According to IRS officials, the goal was not met because of loss of experienced and knowledgeable personnel as a result of IRS's announcement that it would be closing some processing centers.
Notice error rate	Percentage of incorrect notices issued to taxpayers (includes systemic errors).[c]	Not comparable because of revisions to the measure.	18.7% +/- 2.7%	9.7% +/- 0.5 %	13.2%	Performance improved and performance goal exceeded.

(Continued From Previous Page)

Measure Name	Definition	Fiscal year 2001 actual[b]	Fiscal year 2002 actual	Fiscal year 2003 actual (through July 31)	Fiscal year 2003 goal	Comments
Refund error rate –individual (paper)[c]	The percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name or Social Security number) or refund amount; includes systemic errors. [c]	9.8%	8.0% +/- 3.8%	5.4% +/- 3.5%	7.6%	Performance improved and performance goal exceeded.
Refund interest paid	Amount of refund interest IRS paid per $1 million of refunds issued.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	Not applicable	We cannot assess performance relative to previous years or 2003 goal. In 2002, IRS implemented a programming change that revised how it calculates the measure and did not have the necessary data to revise the goal for the 2003 filing season.
Refund timeliness–individual (paper)	Percentage of refunds issued within 40 days or less.	95.2%	98.2% +/- 2.3%	98.8% +/- 2.3%	98.4%	Performance improved and performance goal exceeded.
Productivity	Weighted volume of documents processed per staff year expended at the processing centers.	30,133	28,257	30,094	29,302	Performance improved and performance goal exceeded.

Source: IRS data.

Note: GAO analysis of IRS data.

[a] The measures for fiscal year 2003 are through July 31, which were the latest data available at the time we ended our audit work. According to IRS officials, the 2003 results through July 31 are reflective of IRS's performance during the filing season. In addition, IRS officials told us that the results for the measures should not change significantly through September 30.

[b] According to IRS officials, they did not compute a margin of error for these measures in 2001.

[c] Systemic errors are computer-generated errors over which a particular processing center would have no control.

Advance Payment of Child Tax Credit Had Minimal Impact on 2003 Filing Season

The Jobs and Growth Tax Relief Reconciliation Act of 2003,[1] signed into law on May 28, 2003, increased the amount of the child tax credit from $600 per child to $1,000 for 2003 and 2004. The act also provided for eligible taxpayers to receive the increase of $400 this summer in order to stimulate the economy more rapidly than if taxpayers had to wait until they filed their tax year 2003 return. The Department of the Treasury mailed approximately 24 million advanced payment checks from late July to mid-August 2003 in a manner similar to the advanced payment checks issued in 2001.

IRS took several steps in 2003 to prepare taxpayers for the advanced payments. For example, in May IRS set up a special menu prompt on its tax law and refund inquiry toll-free lines that provided taxpayers with general information about the child tax credit advance payment. In mid-July, IRS (1) provided additional information—such as when taxpayers could expect their advanced payment checks based on the last two digits of their social security number—on this special menu prompt, (2) established a new toll-free number to provide taxpayers with specific information about the advanced payments, and (3) updated its Web site to provide taxpayers with information on eligibility requirements and the ability to check the status of their advance payment.

According to IRS officials, passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003 had a minimal impact on the 2003 filing season. For example, the officials reported that IRS experienced some increase in telephone calls before the legislation was passed, but they expected the majority of taxpayers to call for telephone assistance in mid-August or later—after the advance payments were mailed. Data on calls were not available in time to be reflected in this report. IRS did not allocate additional resources to provide this assistance and estimated that, as a result of an anticipated increase in demand, the CSR level of service performance measure might drop by about three percentage points by the end of 2003 fiscal year. IRS officials anticipate that some additional impact on telephone service will occur during the 2004 filing season.

IRS also anticipates that, based on its experience with the 2001 rate reduction credit, a number of taxpayers will make errors, such as with the Child Tax Credit Worksheet computation during the 2004 filing season. However, IRS anticipates there will be fewer errors in 2004 because fewer

[1]P.L. 108-27.

taxpayers are affected by the child tax credit. As we reported last year, taxpayers and tax practitioners made many errors related to the rate reduction credit during the 2002 tax filing season.[2] However, IRS expects fewer problems with the child tax credit and advanced payment and attributes this in part to IRS having learned lessons from its experience during the 2002 filing season. For example, IRS has identified the types of errors taxpayers and tax professionals made related to the rate reduction credit and was preparing strategies to minimize the impact on taxpayers during the 2004 filing season.

[2] GAO-03-314.

Comments from the Internal Revenue Service

COMMISSIONER

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

October 29, 2003

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

Dear Mr. White:

I agree with your assessment that the 2003 filing season was one highlighted by many improvements. As you acknowledged, preparing for the filing season is a monumental undertaking requiring cross-functional planning and coordination. Our Filing Season Readiness process provides the framework and oversight to insure that we are well prepared, and I appreciate your recognition of our success. The brief synopsis highlighting the progress we have made since 1998 reflects our sustained efforts and the many improvements from our modernization program. We recognize that there are still improvement opportunities, and we plan to continue to build on our success.

Telephone Service
We dramatically improved our customers' experience by increasing telephone access this filing season. Increased accessibility meant that more taxpayers were able to receive service on their initial attempt and waited for a much shorter period of time when requiring assistance from a Customer Service Representative (CSR). While we did receive fewer calls than planned, part of that decrease and the improved access was the result of a comprehensive strategy that:

- Established six new toll-free numbers specifically targeting customer segments based on their service need;
- Provided improved scripts, menu options, and personalized call routing for tax law callers to reduce the number of transferred calls;
- Implemented a skill-based routing process that supports specialization and matches each call to a CSR with the identified skills; and

- Realigned five call sites from Small Business/Self Employed Division to the Wage and Investment Division to better match the specialized workload.

Our success in improving our customer's experience is evidenced by the results of the Customer Satisfaction Survey related to telephone service. For the period January through March 2003, 94 percent of the callers responding to the survey gave the IRS a rating of 4 ("mostly satisfied") or 5 ("completely satisfied") regarding their experience using our toll-free service. For the period April through June 2003, the result was 93 percent satisfied.

As noted in your report, our tax law customer accuracy rate decreased from 85 percent in 2002 to 81 percent in 2003, and our accounts customer accuracy rate decreased from 91 percent in 2002 to 89 percent in 2003. However, we successfully implemented a new quality measurement and improvement system that has the potential for achieving significant progress. The Embedded Quality (EQ) System represents a cultural transition from our pass/fail system of quality review to a system that aligns quality review standards with employee performance standards. Under the old pass/fail system, any one incorrect action would result in a fail rating. The EQ System computes defects per opportunity. The measurement for defects per opportunity is the total number of opportunities to take correct action divided by missed opportunities (defects). This provides a more accurate picture of service quality and allows for targeted performance feedback. It represents a new way of doing business that builds commitment and capability among all individuals to continually improve customer service, employee satisfaction, and business results.

The components that are evaluated by the EQ System include:

- Timeliness;
- Professionalism;
- Customer Accuracy;
- Regulatory/Statutory Accuracy; and
- Procedural Quality.

Our new approach to the EQ System of measurement and improvement is expected to:

- Shape organizational and individual performance by developing appropriate measures; and

- Establish accountability by connecting organizational and human performance.

Tax Return Processing
Our returns processing activities were highly effective. Detailed planning, coordination and a dedicated staff contributed to this success. As noted in your report, we continued to improve our performance while consolidating our processing workload. We improved our performance in each of our Processing Performance measures. Through July, we processed over 125 million income tax returns and issued over $189 billion in timely refunds to our customers.

Electronic Filing
We are pleased that your report recognizes our progress with the IRS's website and electronic filing. In particular, the report notes our success with the Free File Alliance. While we have not yet reached our long-range goal of 80 percent of all federal tax and information returns filed electronically, we are making progress.

During the 2003 tax filing season, we continued to set new records in e-file:

- Electronic Filing - As of September 25, 2003, over 53 million taxpayers e-filed, surpassing last year's volume of 46.7 million.
- Home computer e-filing – People filed more than 11.9 million returns from their home computers, a 27 percent increase from last year.
- Over 2.8 million taxpayers used the free online filing services offered by the Free File Alliance, which exceeded our goal of 2.5 million taxpayers.
- Electronic payments – There were more than 1.2 million e-payments, a rise of 37.3 percent over the same time last year. This includes 552,694 credit card payments.
- Electronic signatures – More than 32.5 million taxpayers signed their return electronically using one of the three Personal Identification Number options.
- Web activity – The IRS site at www.irs.gov remains one of the most used sites during the filing season, with 4.3 billion hits. In addition, the IRS continues to experience an increase in the number of files downloaded, exceeding 534 million.

Plans for improving electronic filing for the 2004 tax filing season include:

- Continuing our aggressive encouragement of electronic filing through the deployment of e-services. E-services are a suite of Web-based products that will allow firms to do business with the IRS electronically.

E-services will give IRS *e-file* Providers easier access to the IRS and the ability to receive information electronically. This will reduce response times enabling IRS *e-file* Providers to better serve their clients. All e-services products will be quick, convenient, and easy-to-use.

- We are working with the Free File Alliance members to develop program requirements (i.e., refinements) designed to improve Free File. The requirements being discussed are a direct result of analysis and feedback gathered from taxpayers regarding their experience with the program. Also, throughout this past filing season we monitored the performance of Alliance members by doing independent reviews of each of their websites and online programs to ensure compliance with requirements set forth in our Agreement. As a result, key improvements for 2004 include:

  - Increasing information about forms and schedules on the Alliance websites;
  - Guaranteeing tax return calculations; and
  - Increasing information regarding the Alliance members' customer service options and state return programs.

Taxpayer Assistance Centers (Walk-In Service)
We are continuing our strategy to reduce the number of taxpayers who need to visit us in person by increasing the availability of electronic services and volunteer services. In addition, we have taken steps to enhance the taxpayer's experience at our Taxpayer Assistance Centers (TACs). As your report recognizes, we took aggressive actions to improve the accuracy of tax law assistance. We required employees to complete directed learning on each tax law subject and validated their proficiency by conducting monthly certifications of selected topics. We are also revising all tax law training to incorporate the Publication Method. The Publication Method is a technique to "walk" a taxpayer through a publication to cover all appropriate probing questions and to illustrate the correct answer to his/her question. Our long-term approach to improving quality is the implementation of the EQ System, similar to the process discussed above for telephone service. When fully implemented (Fiscal Year 2005), the EQ System will provide us with a common approach to measure our performance keyed to what is critical to the customer, employees, and our organization.

Stakeholder Partnerships, Education, and Communication (SPEC)
In the second year of implementing a partner-based business model that leverages the resources of community coalitions in delivering tax preparation and education, IRS significantly increased the scope and availability of volunteer services. Based on annual surveys conducted after the filing season, the IRS

increased its partner overall satisfaction from 83 percent to 87 percent, and maintained a very high taxpayer overall satisfaction rate of 96 percent. For example, these efforts achieved:

- 1.6 million volunteer prepared returns, a 29.6 percent increase over 2002, with a 97 percent filing accuracy rate;
- 143 million outreach contacts, including 57 million EITC-related contacts, using a wide variety of communication channels including media, direct mail, seminars, conferences, and community-based marketing; and
- An increase from 40 to over 160 community-based coalitions in 2003. National partners such as United Way, Health and Human Services Office of Community Services, Annie E. Casey Foundation, and the National League of Cities serve as the foundation to access, serve, and educate millions of taxpayers.

My response to your recommendation for Executive Action is as follows:

Recommendation
You recommended that the Commissioner of Internal Revenue Service direct the appropriate officials to require that the IRS consolidate and disseminate wait-time information to field managers based on information from sites equipped with an automated system that can capture wait-time data, in order to assess this important aspect of quality.

Response
We continue to agree with you that measuring customer wait-time is an important indicator of the service we are providing to our customers. Although we do not currently consolidate and disseminate wait-time information to TAC managers, these managers have information on wait-time available for their local TACs. TAC managers routinely monitor wait-time information on the automated system (Q-Matic) and allocate TAC resources to ensure that customers do not have excessive wait-times. We believe this local monitoring is the best method available to ensure that customers are being served within a reasonable time period. For the same reasons noted in our response to your 2002 Filing Season report (GAO-03-314), we do not agree that it is necessary for headquarters to consolidate and report TAC wait-times. Therefore, we do not plan to implement your recommendation.

However, your report also observed that during the 2003 filing season, Q-Matic equipped sites were not required to report wait-time data to headquarters. We agree that the automated wait-time information available from these locations

would provide valuable data for an assessment of overall trends and relationships in timeliness and quality. As a result, Q-Matic sites will be required to report wait-time information on a quarterly basis.

Again, I appreciate your observations on the successful tax filing season for 2003. If you have any questions, please call Floyd Williams, Director, Legislative Affairs, at (202) 622–3720.

Sincerely,

Mark W. Everson

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Joanna Stamatiades, (404) 679-1984

In addition to those named above, James Cook, Leon Green, Marshall Hamlett, Ron Heisterkamp, John Lesser, Jay Pelkofer, Amy Rosewarne, Sonja Ware, and Daniel Zeno made key contributions to this report.

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