

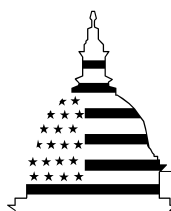
GAO

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

November 2004

TAX ADMINISTRATION

IRS Improved Performance in the 2004 Filing Season, But Better Data on the Quality of Some Services Are Needed



G A O

Accountability ★ Integrity ★ Reliability



Highlights of [GAO-05-67](#), a report to Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Most taxpayers have their only contact with IRS during the filing season, with tens of millions filing their returns, getting refunds, and seeking assistance by calling or visiting IRS's offices or Web site. GAO was asked to assess IRS's performance in 2004 relative to goals and prior years' performance as well as initiatives or other factors that significantly affected performance for the following areas: (1) the processing of paper and electronic returns, (2) telephone service, (3) walk-in service, and (4) Web site service.

What GAO Recommends

GAO recommends IRS (1) recognize and disclose the limitations of the performance data that will be collected at walk-in sites in 2005, and ensure that initiatives to measure the quality of services at IRS walk-in and volunteer sites are implemented timely; and (2) recognize that decisions about the prominence and staffing of the tax law Web site feature are related.

In comments, IRS agreed with the recommendations about walk-in and volunteer site initiatives. Additionally, IRS agreed with the intent of the other two recommendations, but disagreed with our assessment of the extent of the problems. However, without stronger evidence, such as statistically valid data, our concerns remain.

www.gao.gov/cgi-bin/getrpt?GAO-05-67.

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.

TAX ADMINISTRATION

IRS Improved Performance in the 2004 Filing Season, But Better Data on the Quality of Some Services Are Needed

What GAO Found

During the 2004 filing season, IRS met many of its performance goals and continued a trend of improvement in recent years. However, IRS did not improve in all dimensions of its filing season services and lacks sufficient data to evaluate quality in others.

IRS processed returns and issued refunds smoothly. The proportion of returns filed electronically is up to 47 percent. Despite this achievement and numerous initiatives to increase electronic filing, IRS does not expect to reach its long-term goal of having 80 percent of all individual tax returns filed electronically by 2007. A higher percentage of taxpayers was able to reach IRS assistors by telephone than last year and the accuracy rate for providing taxpayers with information about their accounts remained stable. However, the accuracy rate for answering tax law questions declined to 2001 levels. Consistent with IRS's strategy, the number of taxpayers visiting IRS walk-in sites declined, while the number having tax returns prepared at volunteer sites increased. Finally, although IRS continued to expand its Web site services, the site's feature for answering tax law questions raises some concerns.

Despite the 2004 improvements, IRS has opportunities for further service improvements. For example, IRS has limited data with which to assess the quality of key services at its walk-in sites and sites staffed by volunteers. Although IRS has initiatives under way to measure quality at both types of sites, the initiatives have been delayed and important details have not yet been determined, which may undermine IRS's efforts to improve services in this area. In the meantime, some of IRS's quality data is likely to be biased. Until IRS fully implements its initiatives and gathers data on quality, it will have difficulty monitoring and improving performance at its walk-in sites and volunteer sites.

IRS's Primary Activities During the 2004 Filing Season

Returns processing	Taxpayer assistance
Paper returns <i>67 million</i>	Toll-free telephone calls <i>84 million</i>
Electronic returns <i>61 million</i>	Walk-in contacts <i>3.5 million</i>
Refunds <i>100 million</i>	Web site downloads <i>464 million</i>

Source: GAO analysis of IRS data.

Note: Time periods covered are January 1 through September 17, 2004 for paper returns; January 16 through September 17, 2004 for electronic returns; January 1 through September 17, 2004 for refunds; January 1 through July 10, 2004 for toll-free calls; December 28, 2003 through April 24, 2004 for walk-in contacts; and January 1 through August 31, 2004 for Web site downloads.

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United States Government Accountability Office
Washington, D.C. 20548

November 15, 2004

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

Dear Mr. Chairman:

Most taxpayers have their only contact with the IRS during the tax filing season¹ making the agency's performance during this period a key indicator of how well IRS is serving the public and helping them fulfill their tax obligations. IRS's filing season is an enormous undertaking, requiring thousands of IRS staff years to process well over 100 million individual income tax returns, issue refunds, and respond to telephone calls and other requests for assistance. To the extent that IRS can improve filing season operations and provide services more efficiently, it could shift resources to other areas such as enforcement.

Because of the importance of IRS's filing season activities to taxpayers and the Congress, you asked us to assess the 2004 tax filing season. Our objectives were to assess IRS's filing season performance, relative to this year's goals and prior years' performance, and any initiatives or factors that significantly affected performance. We did this for (1) the processing of individual tax returns filed on paper or electronically, (2) toll-free telephone service, (3) walk-in and volunteer site service, and (4) IRS's Internet Web site. We testified on IRS's interim performance in a hearing held by your Subcommittee on Oversight, Committee on Ways and Means on March 30, 2004.²

Our assessment is based on reported results and analyses of key IRS performance measures and data, observations of IRS's operations, interviews of IRS officials, information from representatives of the tax practitioner community, and analyses by the Treasury Inspector General for Tax Administration (TIGTA). For the purpose of this report, we found

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

² GAO, *Internal Revenue Service: Assessment of Fiscal Year 2005 Budget Request and 2004 Filing Season Performance*, [GAO-04-560T](#) (Washington, D.C.: Mar. 30, 2004).

IRS's data to be sufficiently reliable for assessing IRS's 2004 filing season performance and for comparison to prior filing seasons. Further details on our scope and methodology are provided later in this report. We performed our work from January through September 2004 in accordance with generally accepted government auditing standards.

Results in Brief

During the 2004 filing season, IRS met many of its performance goals and continued a trend of improvement in recent years. However, IRS did not improve in all dimensions of its filing season services and lacks sufficient data to evaluate quality in others.

Processing: IRS nearly met or exceeded most of its 2004 goals for processing tax returns and issuing refunds. Performance has generally improved since 2001. Over 61 million returns or 47 percent of all individual income tax returns were electronically filed in 2004. Despite this achievement and numerous initiatives to increase electronic filing, IRS does not expect to meet its long-term goal of having 80 percent of all individual tax returns filed electronically by 2007.

Telephone Service: Access to IRS assistors increased and the accuracy of IRS's response to account questions has remained stable since last year. However, the accuracy rate for responding to tax law questions declined for the second consecutive year and is at the same level as 2001.

Walk-in Assistance: The number of taxpayers visiting IRS walk-in sites continued to decline in the 2004 filing season, while the number receiving return preparation assistance at non-IRS sites staffed by volunteers increased, consistent with IRS's strategy to shift return preparation to those sites. Available, but limited, data raise questions about the quality of key services provided at both types of sites. In addition, some of the quality data IRS expects to have available in 2005 is likely to be biased. Initiatives under way to improve quality measurement have experienced delays, and important details have not yet been determined.

Internet Web Site: IRS's Web site is generally easy to access and use. However, we still have some concerns about IRS's performance answering tax law questions submitted via the site.

We are making recommendations to the Commissioner of Internal Revenue that IRS recognize and disclose the limitations of the performance data that will be collected at walk-in sites in the 2005 filing season; take steps to

ensure that its initiatives to improve data on the quality of services at walk-in and volunteer sites are implemented in a timely manner; and recognize that decisions about the prominence and staffing to give its Web site feature for answering tax law questions are related. In commenting on a draft of this report (see app. III), IRS agreed with the recommendations about walk-in and volunteer site initiatives. Additionally, IRS agreed with the intent of the other two recommendations, but disagreed with our assessment of the extent of the problems. However, without stronger evidence, such as statistically valid data, our concerns remain.

Scope and Methodology

Our assessment of IRS's 2004 filing season performance was based on analyses of IRS data and information obtained from sources outside IRS, interviews with IRS officials and private sector tax practitioners, observations of IRS operations, and, for the comparison to previous years, on our past filing season reports.

More specifically, we

- reviewed and analyzed IRS reports, testimonies, budget submissions, other 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;
- interviewed IRS officials about current operations, performance relative to 2004 goals and prior filing seasons, and significant factors and initiatives that affected performance;
- interviewed representatives of large private and non-profit organizations that prepare tax returns and trade organizations that represent both individual practitioners and tax preparation companies;
- reviewed related TIGTA reports and interviewed TIGTA officials;
- followed up on GAO recommendations made in prior filing season and related reports;
- tested for statistical differences between yearly changes for various IRS performance measures;
- analyzed information posted to IRS's Internet Web site based on GAO's knowledge of the type of information taxpayers look for, and assessed

the ease of finding information, as well as the accuracy and currency of data on the site;

- reviewed information from companies that evaluated Internet performance and assessed various aspects of IRS's Web site; and
- reviewed staffing data for paper and electronic processing, telephone assistance, and walk-in assistance.

This report discusses filing season performance measures and data covering the quality, accessibility, and timeliness of IRS's services. We have previously reported that some of the performance measures IRS uses to assess aspects of its filing season performance had attributes of successful measures, including objectivity and reliability, although in some cases, the measures could be further refined.³ Since that report, IRS has made refinements in some measures. We also reviewed IRS documentation, interviewed IRS officials about computer systems and data limitations, and compared those results to GAO standards of data reliability.⁴ As a result, we determined that the IRS data we are reporting are sufficiently reliable for assessing IRS's filing season performance. Data limitations are discussed where appropriate.

We conducted our work at IRS headquarters in Washington, D.C.; the Small Business/Self-Employed Division headquarters in New Carrollton, Maryland; the Wage and Investment Division headquarters, the Joint Operations Center (which manages telephone service), and a telephone call site in Atlanta, Georgia; and walk-in and volunteer locations in Georgia, Maryland, and Virginia. We selected these offices for a variety of reasons, including the location of key IRS managers, such as those responsible for telephone and walk-in and volunteer services. We performed our work from January through October 2004 in accordance with generally accepted government auditing standards.

³ GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) (Washington, D.C.: Nov. 22, 2002).

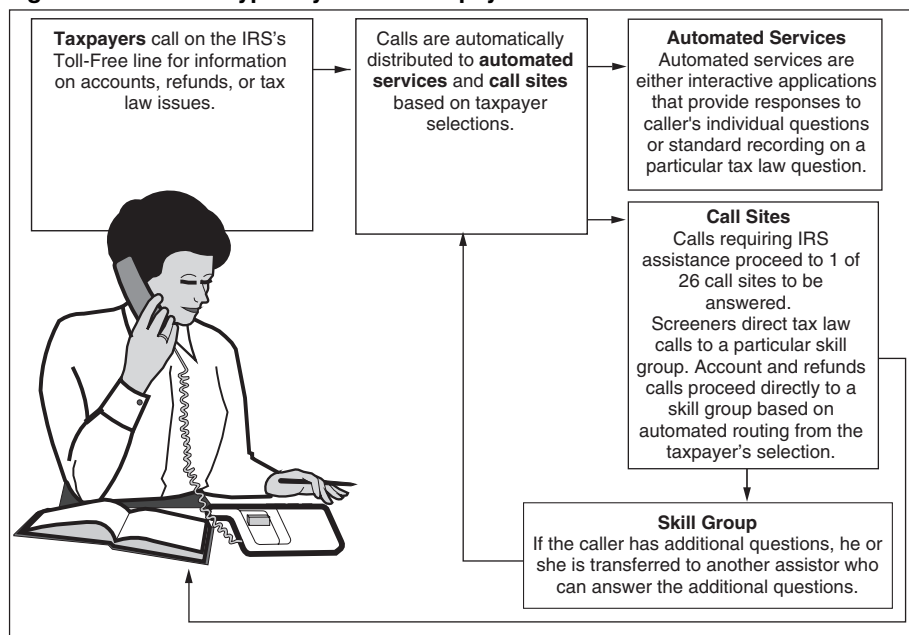
⁴ GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-02-15G](#) (Washington, D.C.: Sept. 1, 2002).

Background

IRS's filing season is an enormous and critical undertaking that includes two key activities—returns processing and taxpayer assistance—and which consumes thousands of staff years annually. Processing of paper returns is labor intensive and error-prone. IRS employees manually transcribe paper tax return information into IRS's computer systems, which can introduce errors. Electronic filing allows taxpayers to receive refunds faster, and processing is less labor-intensive and error prone than for paper returns. IRS does not have to transcribe electronic tax return information and built-in checks eliminate many errors that IRS has to deal with when processing paper tax returns, such as computational mistakes and incorrect social security numbers. The rate for this type of error on electronic tax returns was almost 4 percent compared to almost 25 percent on paper tax returns, as of July 9, 2004.

To help taxpayers comply with their tax obligations, IRS provides various services at its call sites, walk-in sites, and on its Web site. Figure 1 shows how toll-free telephone calls from taxpayers typically are routed through IRS's telephone system and answered by customer service representatives (CSRs) or by automated services.

Figure 1: How IRS Typically Routes Taxpayers' Calls to Toll-Free Numbers



Source: GAO analysis of IRS data and Art Explosion.

At IRS's approximately 400 walk-in sites taxpayers ask tax law questions, get account information, receive assistance with their accounts, and have returns prepared (if annual gross income is \$35,000 or less). In addition, low-income and elderly taxpayers get tax returns prepared at over 13,500 volunteer sites⁵ run by community-based coalitions that partner with IRS. IRS awards grants, trains and certifies volunteers, and provides reference materials, computer software and, in some cases, computers to these volunteer organizations.

IRS's Web site is important because it allows taxpayers to instantly download hundreds of tax forms and publications, access current information on tax issues and electronic filing, and ask IRS tax law and procedural questions.

⁵ Most volunteer sites have limited days and hours of operation and are open primarily between January and April 15.

IRS Has Generally Improved Its Performance Processing Tax Returns but Does Not Expect to Meet Its Long-Term Electronic Filing Goal

Since passage of the IRS Restructuring and Reform Act of 1998⁶ (RRA 98), IRS has been focused on improving filing season services. In 2001, IRS established a suite of balanced performance measures.⁷ The system emphasizes accountability for achieving specific results and reflects IRS's priorities, including providing quality service to each taxpayer in every interaction. As part of its strategic planning and budgetary processes, IRS establishes performance goals each fiscal year⁸ and uses them to hold managers and frontline staff more accountable for improving filing season performance.

IRS processed individual income tax returns and issued refunds smoothly in 2004. IRS nearly met or exceeded many of its 2004 performance goals, with performance generally improving since 2001. However, despite continued growth this year and despite various initiatives to encourage electronic filing, IRS is not on track to achieve its long-term goal of having 80 percent of all individual tax returns filed electronically by 2007.

As of September 17, 2004, IRS had processed about 128 million individual tax returns, including for 67 million returns filed on paper, with no significant disruptions and issued nearly 100 million refunds within specified tolerances.⁹ According to IRS data, IRS nearly met or exceeded seven out of its eight processing performance goals in 2004. Similarly, 2004 performance nearly met or exceeded 2003 performance for six of the seven comparable measures.¹⁰ Appendix 1 provides details. Furthermore, as Appendix 1 and the following examples show, IRS has generally improved its processing operations over a longer period.

⁶ P.L. 105-206, July 22, 1998.

⁷ IRS's balanced measures system is consistent with the Government Performance and Results Act of 1993 (P.L. 103-62), which was enacted to hold federal agencies accountable for achieving program results (See [GAO-03-143](#)).

⁸ Although IRS establishes goals for its balanced measures on a fiscal year basis, our assessment of these measures was based on different times during the filing season, depending on the filing season activity being assessed.

⁹ Time periods covered for paper returns and refunds were January 1 through September 17, 2004.

¹⁰ IRS's measure for deposit timeliness for 2004 was not comparable to previous years because IRS changed the formula to not include weekends in calculating timeliness.

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- The percent of notices with errors has declined since 2002 (for notices sent to taxpayers about possible simple mistakes on their returns). In 2002, 18.7 percent of the notices were issued with errors compared to 9.4 percent as of July 31, 2004 (the most current data available).
 - The refund error rate, the percentage of refunds with IRS-caused errors (e.g., incorrect name or Social Security number), has decreased from 9.8 percent in 2001 to 5.3 percent in 2003, to 4.9 percent as of July 31, 2004 (the most current data available).

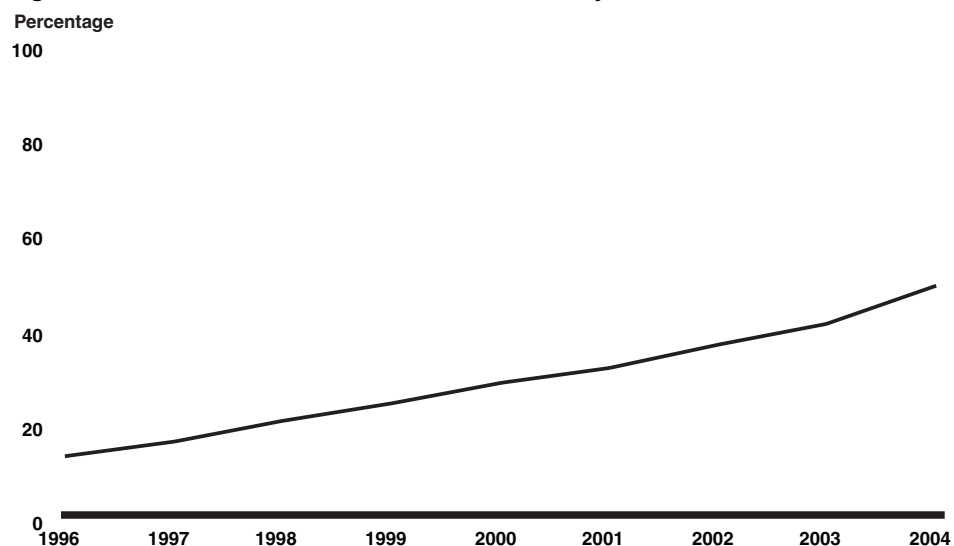
Tax practitioners, who last year prepared approximately 62 percent of all individual income tax returns, agreed that the processing of returns in the 2004 filing season has gone smoothly. Representatives from the National Association of Enrolled Agents, American Institute of Certified Public Accountants, and other tax related organizations had positive comments on IRS's 2004 filing season and processing. Similarly, TIGTA officials told us that IRS generally processed returns smoothly in 2004.

IRS officials attributed this year's performance in part to their planning for tax law changes, such as the advance child tax credit and the increase in electronic filing.

Electronic Filing Grew but Is Not on Track to Achieve Long-Term Goal

The number of individual income tax returns that IRS received electronically continued to grow, and IRS exceeded its 2004 goals for the number and percentage of tax returns to be filed electronically. From January 16 through September 17, 2004, it had received an estimated 61.1 million individual tax returns electronically or 47 percent of all returns filed to date. Also, the growth rate of 15.8 percent is greater than IRS's projected growth rate of 13 percent for this year. Figure 2 shows that growth since 1996.

Figure 2: Percent of Tax Returns Filed Electronically 1996–2004



Source: GAO analysis of IRS data.

According to IRS officials, the primary reason for the greater than expected growth rate is that five states mandated electronic filing of state tax returns prepared by qualified tax practitioners for 2004. According to these same officials, these mandates led to significantly more electronic filing of federal tax returns in these states because tax practitioners converted their entire practices to electronic filing. For example, for California and Michigan, the largest of the five states, the number of tax returns filed electronically increased from 4.7 million and 1.9 million in 2003 to 7.1 million and 2.6 million respectively as of May 2004.

The current rate of growth of electronic filing, however, will not allow IRS to achieve its long-term electronic filing goal of 80 percent of all returns by 2007, provided by RRA 98. Assuming a continuation of the current growth rates of 15.8 percent for individual returns filed electronically and .23 percent for the total number of individual tax returns filed, IRS would receive 73 percent of individual tax returns electronically by 2007.

However, neither IRS nor the Electronic Tax Administration Advisory Committee (ETAAC)¹¹ expects IRS to maintain this year's growth rate. In fact, IRS is predicting declining growth rates of about 11.5 percent, 9.9 percent, and 8.1 percent in 2005, 2006 and 2007, respectively. In its June 30, 2003, report to Congress, ETAAC concurred with IRS's prediction of lower annual growth rates.

IRS officials stated that achieving the 80 percent goal would require taxpayers and tax practitioners who prepared 39 million individual income tax returns¹² on a computer but filed them on paper would instead have to file them electronically, or legislation would have to be proposed and passed that mandates electronic filing by tax practitioners.

Electronic filing is important because, according to IRS, it costs less to process electronic tax returns than paper tax returns. IRS estimates it saves \$2.15 on every individual tax return that is processed electronically. However, we cannot independently verify this estimate and its basis is unclear, because as we have reported, IRS does not have a cost accounting system to support preparation of such cost estimates.¹³ Electronic filing has allowed IRS to close paper processing centers, devote less staff to the processing of tax returns, and control processing costs by shifting resources from labor-intensive paper return processing to other areas, such as compliance. For example, with the elimination of paper tax return processing at the Brookhaven Submission Processing Center, IRS used about 1,000 fewer staff years to process paper returns in 2003 than in 2002, and plans additional staff-year savings when paper tax returns processing at the Memphis Submission Processing Center is eliminated in 2005. (See app. 2 for more information on staff years).

Because increasing electronic filing is so important, IRS officials do not want to reduce the 2007 goal, even though IRS projects that it is not

¹¹ 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 reports to Congress annually on IRS's progress towards meeting electronic filing goals.

¹² Data as of June 30, 2003, the latest available data.

¹³ GAO, *Financial Audit: IRS's Fiscal Year 2003 and 2002 Financial Statements*, [GAO-04-126](#) (Washington, D.C.: Nov. 13, 2003).

achievable. Retaining this goal serves as a symbol of their determination to take actions to convert taxpayers to file electronically.

IRS Has Taken Numerous Actions to Encourage More Electronic Filing

Over the years, IRS has taken numerous actions to encourage electronic filing, including

- making electronic filing free to most taxpayers via the Free File Alliance Program,¹⁴ a program that began last year;
- surveying taxpayers and tax practitioners in response to a recommendation in our 2001 filing season report¹⁵ to determine why 40 million tax returns were prepared on a computer but filed on paper;
- making over 99 percent of all individual tax forms suitable for electronic filing; and
- making the process totally paperless if a person uses a personal identification number to sign the tax return.

For the 2004 filing season, IRS took the following actions to encourage taxpayers and practitioners—primarily those who prepared returns on a computer, but filed them on paper—to file electronically IRS. IRS

- improved the Free File Alliance Program (as of September 17, 2004, about 3.5 million individual tax returns have been filed electronically via the Free File Alliance, compared to 2.8 million for all of last year, a 26 percent increase);
- contacted about 12,200 tax practitioners who prepared business returns on computers, but filed electronically to advise them about the benefits of electronic filing;

¹⁴ In 2003, IRS entered into a 3-year agreement with the Free File Alliance, a consortium of tax preparation companies that provides free electronic filing to taxpayers who access any of the companies via a link on IRS's Web site. IRS is currently in the second year of the initiative, and 17 companies offered free filing via IRS's Web site.

¹⁵ GAO, *Tax Administration: Assessment of IRS' 2001 Tax Filing Season*, [GAO-02-144](#), (Washington, D.C.: Dec. 21, 2001).

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- targeted the approximately 8 million individual taxpayers who filed their own paper returns prepared on a computer by mailing them a modified version of Publication 8160E that cites the advantages of electronic filing;
 - spent \$11.2 million marketing electronic filing; and
 - made six more forms available for electronic filing.

Other major electronic filing initiatives could lead to more individual electronically filed tax returns starting in 2005. However, IRS did not expect the following initiatives to dramatically increase electronic filing in 2004 because taxpayers and practitioners will need time to adjust their behavior.

- The modernized E-file program, which for the first time, allows electronic filing of corporate tax returns, could lead to more individual tax returns being filed electronically. According to IRS officials, some tax practitioners reported they would not file electronically until they could do so for both individual and corporate tax returns, saying it did not make business sense to file tax returns two different ways.
- The E-services program, offered to tax practitioners who have filed at least 100 electronic tax returns, gives them the ability to conduct business, such as electronic account resolution and transcript delivery with IRS electronically 24 hours a day 7 days a week for services.

Despite these initiatives, IRS does not expect to reach its 2007 goals for electronic filing. However, because of the potential for cost savings, we continue to see value in such initiatives.

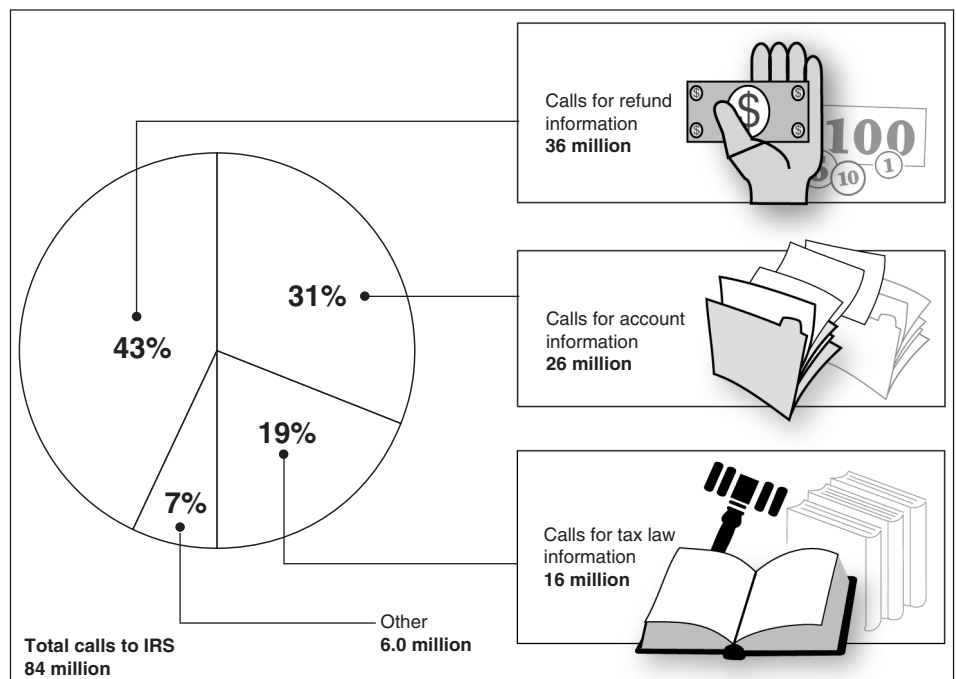
Access to IRS's Telephone Assistors Improved but Tax Law Accuracy Declined

IRS exceeded its 2004 telephone service goal for access to customer service representatives (CSRs) and has improved in this area since 2001. However, the accuracy of CSR answers to tax law questions declined. IRS initiated two pilots in 2004 to help assess options for improving its telephone service.

Access to Customer Service Representatives Continued to Improve; the Accuracy of Account Inquiries Was Stable; but the Accuracy of Tax Law Questions Declined

IRS received 84 million calls on its toll-free telephone lines in 2004 through mid-July. Figure 3 shows that almost half of those calls were from callers trying to obtain information on the status of their tax refunds; the rest were primarily account or tax law questions.

Figure 3: Reasons Taxpayers Called for Telephone Assistance During the 2004 Filing Season



Source: GAO analysis of IRS data and Art Explosion.

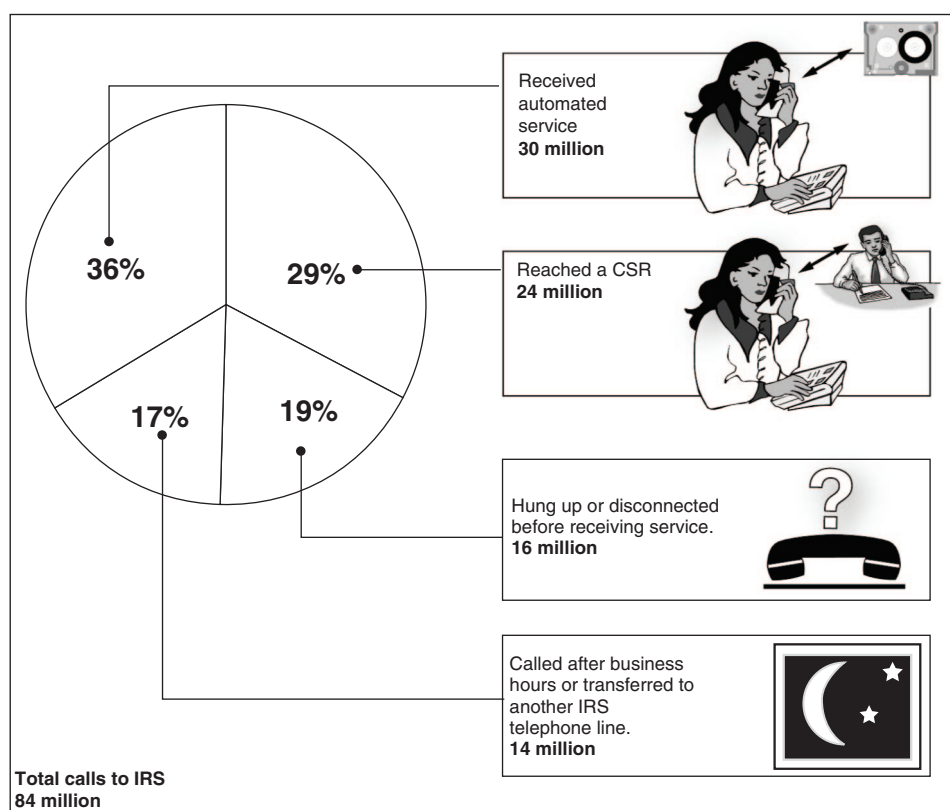
Note: The “other” category includes, for example, special telephone numbers not available to the public, such as those for disaster relief, tax practitioners, and calls that were received on the automated services line that were abandoned. Data cover the period January 1, 2004 through July 10, 2004.

Figure 4 shows how the calls were handled. IRS’s automated service handled 30 million calls and CSRs handled 24 million.¹⁶ The rest of the calls

¹⁶ Of the 84 million calls, IRS had 173,000 busy signals—less than one-half of 1 percent. In comparison, during the 2002 filing season, busy signals represented about 3.8 percent of calls.

came in after business hours, were transferred, were disconnected, or the caller hung up before receiving service.

Figure 4: How IRS Handled Calls for Telephone Assistance During the 2004 Filing Season



Source: GAO analysis of IRS data and Art Explosion.

Note: Percentages do not add to 100 percent due to rounding. Data cover the period January 1, 2004 through July 10, 2004.

As table 1 shows, compared to last year, access to CSRs continued to improve, the average time taxpayers waited for CSRs remained stable, and the accuracy of CSR responses to account questions remained stable, while the accuracy of CSR responses to tax law questions declined.

Table 1: IRS Telephone Assistors Performance, 2001–2004 Filing Seasons

	2001	2002	2003	2004	Fiscal year goals 2004
Accessibility measures^a					
CSR level of service ^b	68%	71%	85%	86%	83%
Average speed of answer ^c	334 seconds	274 seconds	168 seconds	170 seconds	199 seconds
Accuracy measures^d					
Accounts customer accuracy rate ^e	88.1% +/- 0.6	90.5% +/- 0.4	88.6% +/- 0.4	89.0% +/- 0.5	90%
Tax law customer accuracy rate ^e	79.1% +/- 0.6	84.9% +/- 0.5	81.3% +/- 0.7	79.5% +/- 0.8	85%

Source: GAO analysis of IRS data.

^a Based on actual counts from January through mid-July for 2001, 2002, 2003, and 2004.

^b The percentage of callers who want to speak to a customer service representative (CSR) who get through and receive service.

^c Average number of seconds a taxpayer waits in queue for a CSR. Beginning in 2004, IRS expanded the services included in this measure. However, the calculation of the measure remained the same. Recomputed figures are shown here and are different than what we reported in the past (see [GAO-04-84](#)). Based on actual counts from January through mid-July for 2001, 2002, 2003, and 2004.

^d Based on representative samples and from January through June for 2001, 2002, 2003, and 2004.

^e The percentage of calls in which CSRs provided accurate answers for the call type and took the appropriate follow-up resolution action, with a 90 percent confidence interval.

Unlike calls to CSRs, IRS does not have a quality measure for its automated telephone services. In our report on IRS's performance measures,¹⁷ we recommended that IRS develop a customer satisfaction survey to measure approval of the automated service. At the time, the IRS Commissioner responded that he agreed that measuring customer satisfaction for automated service was important. According to IRS officials, the needed computer programming changes were not done for the 2004 filing season, but are in the queue to be done when programming resources permit.

IRS officials continue to attribute the decline in tax law accuracy rate primarily to changes made to the CSR's Probe and Response (P&R) Guide, a publication that CSRs use to help them answer taxpayers' tax law

¹⁷ [GAO-03-143](#).

questions. Last year, we reported¹⁸ that IRS attributed the decline in the tax law accuracy rate on a new format for the P&R guide, among other factors. At that time, an IRS official believed that after CSRs became familiar with the guide, the problem would be resolved and IRS continued using the new format. IRS began to address the problems with the P&R guide during the 2004 filing season. For example, CSRs told us that they attended a meeting of managers and CSRs in March 2004 to identify the problems with the guide and develop an action plan to correct the problems. According to IRS officials, IRS tested changes to the guide at the St. Louis, Missouri and Cleveland, Ohio call sites in June 2004. In addition, IRS has a written plan with deadlines for testing the guide for the 2005 tax filing season. The new guide was to be made available in hard-copy by October 1, 2004 and was to be used for purposes of training employees before the start of the 2005 filing season.

IRS Initiated Two Pilot Programs For Telephone Service

IRS initiated two pilot programs in 2004 to assess options for improvements on its toll-free telephone services. IRS piloted having a contractor answer tax law questions instead of IRS employees to determine (1) if a contractor could deliver an equal or superior level of service and (2) the public's perception regarding being assisted by someone other than IRS employees. IRS routed 10 percent of the tax law calls¹⁹ received on its toll-free lines to a contractor for 60 days (February through April 2004). With respect to the accuracy of tax law responses provided to taxpayers, the contractor's performance was about half that of IRS's—44.6 versus 82.46 percent, respectively. IRS attributed the contractor's performance to a longer-than-expected learning curve. Also, taxpayers' raised concerns regarding privacy, although no confidential information is shared in answering tax law questions. In September 2004, IRS officials decided not to go forward with further testing.

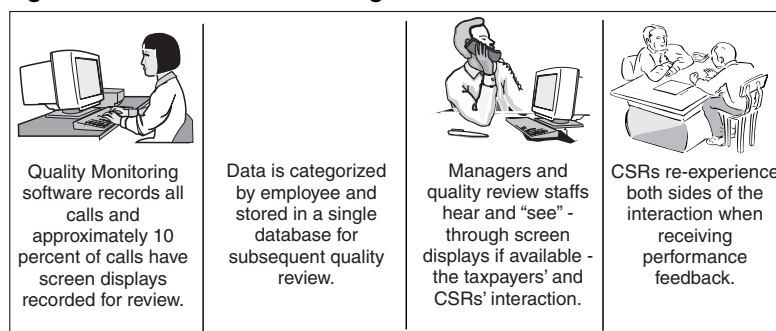
The second pilot was for contact recording, which involves recording all telephone contacts between taxpayers and CSRs and, for 10 percent of the calls, also capturing computer screen displays accessed by the CSR. It is intended to enable supervisors to provide CSRs with more complete

¹⁸ GAO, *Tax Administration: IRS's 2003 Filing Season Performance Showed Improvements*, [GAO-04-84](#) (Washington, D.C.: Oct. 2003).

¹⁹ The study did not include questions related to taxpayer accounts.

feedback on their performance. Figure 5 illustrates the process for contact recording.

Figure 5: The Contact Recording Pilot Process



Source: GAO analysis of IRS data and Art Explosion.

IRS conducted the contact recording pilot from January through April 2004 at three call sites. According to IRS officials and our interviews with CSRs, CSRs liked being able to hear and see how they handled calls. In September 2004, IRS officials told us that they had decided to implement contact recording at all call sites by the end of the 2005 filing season.

Taxpayer Use of IRS Walk-in Sites Continued to Decrease While Use of Volunteer Sites Increased; Quality Data Are Limited

The total number of taxpayers visiting IRS walk-in sites continued to decrease while those having their returns prepared at volunteer sites increased. Available data raise questions, however, about the quality of services provided at both walk-in and volunteer sites. IRS has initiatives under way intended to improve the quality of data, though implementation may not be ready for the 2005 filing season.

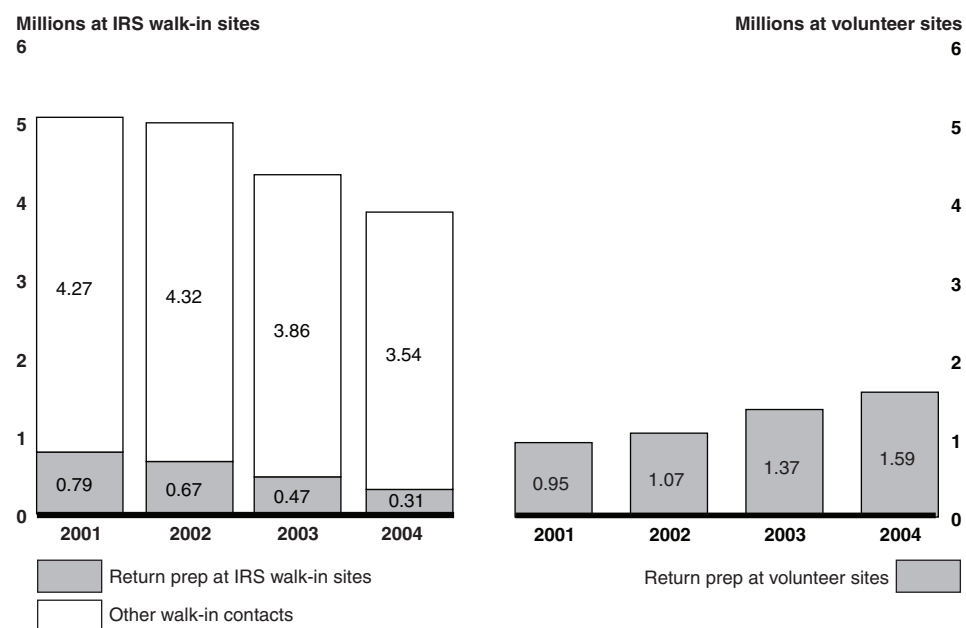
Number of Taxpayers Visiting IRS Walk-in Sites Decreased While Number At Volunteer Sites Increased

Based on the data obtained from IRS and shown in figure 6, the total number of taxpayers seeking assistance at IRS sites declined an average of over 8 percent per year between 2001 and 2004. IRS officials attributed the overall decrease to taxpayers' use of more convenient means to obtain services, such as IRS's toll-free telephone lines and Web site. Taxpayers

seeking return preparation assistance at walk-in sites decreased an average of 26 percent per year between 2001 and 2004.

In contrast, since 2001, the number of taxpayers seeking return preparation assistance at volunteer sites increased an average of 19 percent per year. During the 2004 filing season, taxpayers had over five times more returns prepared at volunteer sites than at IRS walk-in sites. These divergent trends reflect IRS's strategy to shift return preparation to sites staffed by volunteer and community-based coalitions that are overseen by IRS. IRS has encouraged the shift by advertising the locations of these sites.

Figure 6: Assistance Provided by IRS Walk-in and Volunteer Sites, 2001–2004 Filing Season (in millions)



Source: GAO analysis of IRS data.

Note: "Other walk-in contacts" includes assistance for account notices, tax law inquiries, forms, and compliance work, but not return preparation. For the walk-in sites, the time periods covered are December 31, 2000 through April 28, 2001; December 30, 2001 through April 27, 2002; December 29, 2002 through April 26, 2003; and December 28, 2003 through April 24, 2004. For volunteer sites, the time period covered for 2001 is January 1, 2001 through April 21, 2001; all other periods are the same as those for IRS walk-in sites.

The shift of taxpayers from walk-in to volunteer sites is important because it has transferred some time-consuming services, such as return preparation, from IRS to volunteer sites. It also enabled IRS to shift more

taxpayers to its telephone and Web site services, allowing it to concentrate on services at walk-in sites that only IRS can provide, such as account assistance or compliance work (see app. 2).

Limited Data Raise Questions About the Quality of Services at Walk-in and Volunteer Sites

While shifting taxpayers from IRS walk-in sites to volunteer sites has the advantage of freeing up some IRS resources, IRS has limited performance measures and data on the quality of tax law assistance, account assistance, timeliness, and return preparation provided at either type of site. We have noted in prior filing season reports that this raises concerns about quality and oversight.²⁰

- *Tax Law Assistance:* Both TIGTA and IRS reported that IRS had not reached its goal of 80 percent accuracy at the walk-in sites they visited.²¹ Since the sites were selected judgmentally, the results cannot be projected to all sites.
- *Account Assistance:* During the 2004 filing season, IRS did not measure account assistance accuracy at its walk-in sites. According to IRS officials, the focus on tax law accuracy diverted staffing resources from gathering data on account assistance accuracy.
- *Timeliness:* IRS also did not measure timeliness, although GAO has recommended²² that IRS re-adopt a timeliness measure for its walk-in sites, stating that the presence of a quality measure should provide balance and a disincentive for employees to ignore quality in favor of timeliness.

²⁰ [GAO-04-84](#) and GAO, *Tax Administration, Assessment of IRS' 2000 Tax Filing Season*, [GAO-01-158](#) (Washington, D.C.: Dec. 22, 2000). Also, see [GAO-03-143](#) for further discussion of data and measures for IRS walk-in sites.

²¹ Treasury Inspector General for Tax Administration, *Taxpayer Experience at the Taxpayer Assistance Centers Could be Improved*, Reference No. 2004-40-152 (Washington, D.C.: 2004).

²² [GAO-03-143](#).

-
- *Return Preparation:* The utility of the current measure for accuracy of return preparation assistance provided at walk-in and volunteer sites is limited, because it narrowly defines accuracy. It counts a return as accurate only if no calculation errors or other obvious factual errors, such as omitted or inconsistent data, are identified on the return. In addition, the results of recent TIGTA audits raise questions about the accuracy of return preparation assistance at both walk-in and volunteer sites.²³

IRS Has Initiatives Under Way Intended to Better Measure Quality at Walk-in and Volunteer Sites Though Implementation May Not be Timely

IRS has initiatives under way intended to better measure the quality of key services at walk-in and volunteer sites. Key parts of both the walk-in and volunteer site initiatives that were scheduled for implementation in 2005, have experienced delays, have important details to be determined, and may not be implemented on schedule. The initiative for walk-in sites has the following four components.

- *Embedded Quality* provides a standardized checklist for managers to measure the accuracy, professionalism, and timeliness of employee responses to taxpayers. Initially under Embedded Quality, a manager will directly observe the employee/taxpayer interaction. However, this could yield biased data, because employees will know they are being observed, which could influence their behavior. Consequently, Embedded Quality data gathered by direct observation may not be representative of true performance.
- *Contact Recording*²⁴ will replace direct observation as the method for gathering data on Embedded Quality. Under contact recording, the IRS employee/taxpayer interactions will be recorded and a random sample assessed using the Embedded Quality checklist. A pilot was scheduled to begin in August 2004. According to IRS, as of September, the Department of Treasury has not yet approved the pilot. It is unlikely the pilot will begin until January 2005. Since the pilot and evaluation are

²³ Treasury Inspector General for Tax Administration, *Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers*, Reference No. 2004-40-025, (Washington, D.C.: 2003) and Treasury Inspector General for Tax Administration, *Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites*, Reference No. 2004-40-154, (Washington, D.C.: 2004).

²⁴ Contact recording for IRS walk-in sites is similar to the one for IRS's telephone system.

planned to take 3 months, it is also unlikely that contact recording will be fully implemented until well into the 2005 filing season.

- *Q-Matic* is an automated system that keeps track of such things as customer wait-time, assistance provided, and staff time used. As of September 2004, Q-Matic implementation is proceeding on schedule.
- *Performance-based individual learning* (E-Learning) is a training component that will be used to identify and address deficiencies.

Until contact recording replaces direct manager observation as a means of gathering data, IRS may have biased data on the quality of its walk-in services. Such biased data has significant limitations for drawing conclusions regarding performance and for making comparisons to other years. This in turn creates difficulties for managers trying to identify problems and make improvements to service. Furthermore, until Embedded Quality and contact recording are implemented together for a full filing season, assessing quality at walk-in sites will be based on two different data collection methods, thus limiting comparisons.

At volunteer sites, IRS plans to implement the following;

- *Quality Assurance* is an initiative where IRS, working with volunteer and community-based coalitions, is developing quality standards and a means of monitoring the quality of return preparation services.²⁵ This is consistent with an earlier recommendation we made for IRS to develop performance measures for volunteer sites to help ensure that taxpayers were receiving an adequate level of service.²⁶ IRS planned to implement the initiative for the 2005 filing season. However, as of September 2004, IRS had missed its milestones for developing guidelines for monitoring volunteer sites, and was still developing and revising its implementation plans, revising its schedule, and determining important details, such as how and when volunteer sites will be monitored and how quality will be measured.

²⁵ According to IRS officials, IRS and members of community-based coalitions will likely share responsibility for monitoring volunteer sites. IRS officials will conduct various types of visits to volunteer sites. With some visits, IRS officials will visit a statistically valid sample to observe volunteers and operational procedures. With others, they will have returns prepared by volunteers, similar to TIGTA's audit in the 2004 filing season.

²⁶ [GAO-01-158](#).

We are concerned that the Quality Assurance initiative may not be implemented in time to measure performance for the 2005 filing season. As with IRS's initiative for its walk-in sites, until Quality Assurance is fully implemented, IRS will continue to have limited and potentially unreliable information on the quality of return preparation at volunteer sites for the 2005 filing season. As a result, IRS officials have less information available when making decisions about the role of volunteer sites and how IRS should support them.

Use of IRS's Web Site Increased, But Concerns Exist About a Feature for Answering Tax Law Questions

IRS's Web site is important because it provides taxpayers and tax practitioners with customer service without having to directly contact IRS employees. Although overall Web site usage increased over last year, we have some concerns about IRS's performance answering tax law questions.

Web Site Use Increased and the Site Was User Friendly and Highly Rated

IRS's Web site usage increased in 2004, continuing a trend as shown in table 2.²⁷ Further, there was extensive use of the "Remember Your Advanced Child Tax Credit" feature that was new in 2004.

²⁷ IRS officials believe that the 2004 Forms, publications and other documents download figure reported in table 2 is understated when compared to last year for two reasons. First, a major Form 1040 file was not formatted the same as last year by error, resulting in significantly fewer downloads being reported. Second, taxpayers can now view publications and instructions directly via the Web site's normal search function and these views do not count as the form being downloaded. Evidence exists to support IRS's contention that downloads would have been higher.

Table 2: Use of IRS's Web site from 2001–2004

Web site usage	2001	2002	2003	2004
Forms, Publications, and Other Documents Downloaded	279 million	379 million	457 million	464 million
Where's My Refund inquiries	Not applicable	Not applicable	17 million	23 million
Remember Your Advanced Child Tax Credit inquiries	Not applicable	Not applicable	Not applicable	11 million

Source: GAO analysis of IRS data.

Note: All figures rounded to closest million, as of August 31, 2004.

Overall we found that IRS's Web site was user-friendly and generally easy to access and use. For example, based on our knowledge of the type of information taxpayers look for, we found (1) no broken links or outdated or inconsistent data; (2) facts and information were logically arranged and easy to obtain; (3) with few exceptions, search functions guided us to appropriate forms, publications and information; and (4) response time was quick. However, we still have concerns about the feature answering tax law questions.

Two independent assessments done by Keynote and Brown University's Center for Public Policy confirmed our observations on IRS's Web site.

- Keynote, an independent Web site rater of Internet performance, reported that IRS's site performed very well. Keynote reported that, for the average delivery time to download to IRS's Web site homepage, IRS was in the top 10 out of 40 government agencies measured for 12 of 15 weeks during the filing season. It also reported that, during the filing season, IRS's response time was consistent with other organizations being measured. Finally, Keynote reported that, when it comes to success rate (being able to access a desired location on the Web site) IRS was always at 99 or 100 percent for the filing season.
- Brown University's Center for Public Policy rated IRS's Web Site 5th out of 60 federal government Web sites in providing service to citizens.

Performance and Use of Tax Law Assistance Feature Declined

The quality of IRS's Electronic Tax Law Assistance (ETLA) feature, which enables taxpayers and practitioners to ask tax law questions via the Internet and receive an e-mail response from IRS, has declined. Usage has also declined, apparently by design.

IRS did not meet its 2004 goal to respond to e-mail questions within 2 business days. On average, IRS responded to e-mail questions in over 3 business days and only reached the 2 business day goal in 6 of the 27 tax law categories. Neither did IRS meet its accuracy goal. IRS's performance data showed that IRS answered about 64 percent of the e-mail questions accurately, compared to its goal of 78 percent.

IRS did not meet its goals because of a mismatch between the number of questions from taxpayers and staff available to respond to the questions. At the beginning of the 2004 filing season, IRS increased the prominence of the ETLA feature. However, an IRS official told us that this resulted in the site receiving more questions than staff could handle. The official said that in response IRS moved the ETLA feature to a less prominent position on the Web site. In fact, in its current location, IRS does not expect taxpayers to be aware of the ETLA feature unless they stumble upon it accidentally while looking for other information on IRS's Web site. As a result, the ETLA feature was used significantly less this year than last. In 2004, taxpayers and practitioners submitted about 90,000 tax law and procedural questions via the Web site, down from 153,000 in 2003, a 41 percent decrease. IRS officials have decided not to move the ETLA feature to a more prominent location as of October 2004.

Although the number of questions received from taxpayers via the Web site is small, when compared to the number of questions received over the telephone, providing accurate responses to these questions is particularly important. Not only do inaccurate and untimely responses disappoint the taxpayers asking the questions, IRS also runs the risk of widespread dissemination of inaccurate e-mail responses to other taxpayers.

The decisions about the prominence of the feature and staffing are related. Achieving timeliness and accuracy goals depends, in part, on recognizing that decisions about the prominence of the feature, which affect taxpayer demand, and decisions about staffing are related. If IRS is unwilling to devote significant staff to answering tax law questions, then the feature cannot be prominent on the Web site. If IRS believes the feature is worth making prominent, then there are implications for staffing. For the 2004 filing season, IRS's decisions failed to recognize the relationship.

IRS Continues to Offer New Web Services

IRS continued to offer new services via its Web site. New services are popular with taxpayers, as shown by the increasing use of features, such as “Where’s My Refund?” shown in table 2. In 2004, IRS added the following customer service features for taxpayers and tax practitioners.

- “Remember Your Advanced Child Tax Credit” that allows taxpayers to check the amount of their child tax credit.
- “E- Services” which is a suite of Internet services for tax practitioners that is previously discussed in the processing section of this report.

Conclusions

IRS improved its filing season performance this year compared to last. More importantly, in many areas the improved performance is part of a trend that IRS is sustaining over time. IRS’s filing season performance is important because it affects over 100 million taxpayers. Taxpayers want a quick turnaround on their refunds; they want easy access to IRS’s telephone assistants if they have questions; and they want to instantly download forms and publications when they need them.

The improvements we found are the result of systematic, long-term efforts by IRS. Processing results have improved and resources have been saved because of IRS’s promotion of electronic filing, telephone access has improved because IRS implemented new call routing technology, and labor-intensive walk-in assistance is decreasing because of improvements to alternative services. IRS should be commended for its efforts to improve service.

At the same time, however, we have identified several areas that present opportunities for further improvement. IRS has limited performance measures and data with which to assess the quality of services at walk-in and volunteer sites, primarily because its initiatives for doing so are only partially implemented. IRS deserves credit for planning initiatives to address these data limitations. However, we are concerned that until the walk-in initiative is fully implemented, IRS will have biased quality data on walk-in service. Furthermore, the history of delays and incomplete plans for the walk-in and volunteer site initiatives leaves us unsure about when IRS will fully implement them. Until IRS fully implements these initiatives and gathers data on quality, it may not be able to effectively monitor and improve performance at its walk-in sites or volunteer sites and, as a consequence, could be risking its credibility among taxpayers who use the

sites and the community-based coalitions that prepare returns at volunteer sites.

Finally, IRS failed to meet its goals for accuracy and timeliness of e-mail responses to tax law questions, at least in part, by failing to match taxpayer demand for the feature with staffing. The risk associated with providing inaccurate e-mail responses may be high because of the potential for widespread dissemination.

Recommendations

To address problems with the data for assessing the quality of services at IRS walk-in and volunteer sites, we recommend that the Commissioner of Internal Revenue direct the appropriate officials to

- recognize and disclose the limitations of the Embedded Quality performance data that will be obtained by direct management observation in 2005 when interpreting and reporting on service quality at walk-in sites;
- ensure that the causes of delays in implementing improved quality measurement at walk-in sites are addressed; and
- ensure that the delays with the development and implementation of the Quality Assurance initiative at volunteer sites are addressed.

With respect to the Web site's ETLA feature, we recommend that the Commissioner

- recognize that decisions about the prominence and staffing to give the feature are related.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue provided written comments in a November 8, 2004, letter (see app. III). The Commissioner noted that the 2004 filing season was one of the best ever, with improved telephone service, timely and effective return processing, substantial increases in electronic filing, and a successful shift in the number of tax returns prepared in IRS walk-in sites to volunteer sites. The Commissioner said he appreciated that our report recognized IRS's achievements for this filing season and over the past few years as well.

The Commissioner agreed with the importance of recognizing and disclosing the limitations of performance data obtained by managers directly observing employees in 2005. He also said that IRS has communicated the limitations in briefings with all levels of management and outside stakeholders, and will continue to do so. However, the Commissioner differs with our assessment of the extent of the limitations in the data. While he agreed that there may be some bias in the data because employees know that their managers are observing them, he disagreed with our subsequent finding that data obtained through this method may not be representative of true performance. However, as our report indicates, because of the potential for bias and absence of other data, we cannot determine if the observed performance is representative or not. Further, according to IRS officials, the accuracy rates compiled by the quality review staff and managerial reviews cited by the Commissioner are not based on statistically representative samples.

The Commissioner agreed with the recommendation to ensure that causes of delays in implementing improved quality measurement at walk-in sites are addressed. He said that while the delay in the implementation of contact recording as a means of collecting embedded quality data is attributable to the lengthy approval process, IRS expects to begin the contact recording pilot by January 2005 and is on target for post-pilot initial implementation for the last quarter of fiscal year 2005. Regarding volunteer sites, the Commissioner also agreed with the recommendation to implement quality initiatives in a timely manner and address delays.

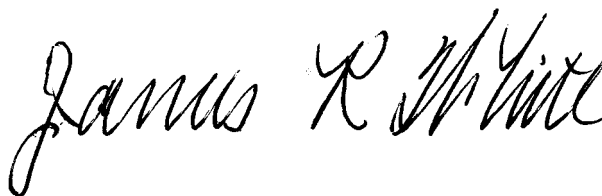
The Commissioner agreed with the intent of our recommendation about the ETLA feature, but disagreed with our assessment of the cause. He agreed that it is important to recognize the relationship between the prominence of the feature and staffing, but disagreed that the decline in ETLA performance is attributable to inadequate recognition of this relationship. He stated that the ETLA feature was inadvertently placed in a more prominent location on IRS's Web site, thus creating unexpected demand. However, inadvertent placement suggests that the IRS needs to be more deliberative in recognizing the impact that placement of this feature can have on demand and staffing.

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,

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James R. White
Director, Tax Issues

Data on IRS's Processing Performance Relative to Fiscal Year 2001-2003 Performance and Fiscal Year 2004 Goals

As table 3 shows, the Internal Revenue Service (IRS) nearly met or exceeded seven out of the eight processing performance goals in 2004. For four measures (i.e., deposit error rate, deposit timeliness, refund interest paid, and productivity), IRS exceeded its goals. For two of the measures, IRS met their goals. For the remaining two, IRS missed its goals by a statistically significant amount. In the case of refund timeliness, however, the point estimate of 98.2 percent, nearly met the goal of 98.4 percent. In the case of letter error rate, the point estimate was 7 percent compared to the goal of 6.2 percent—13 percent greater than the 2004 goal.

Comparing actual 2004 performance to 2003 shows that IRS's performance improved or remained about the same for six out of the seven measures that could be compared. Table 3 also shows that IRS's processing performance in 2004 has generally improved in comparison to 2002 and 2001 for the measures that could be compared.

Table 3: IRS's Processing Performance, 2001–2004

Measure name	Definition	Fiscal year 2001 actual ^b	Fiscal year 2002 actual	Fiscal year 2003 actual	Fiscal year 2004 actual (through July) ^a	Fiscal year 2004 goal
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% +/- .3% ^d	4.2% +/- .3% ^d	3.6% +/- .34% ^d	4.0%
Deposit timeliness—paper	Interest foregone by not depositing monies the business day after receipt, per \$1 million in deposits. Measure assumes an 8 percent interest rate.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	\$422 ^e	\$500
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% +/- .6% ^d	7.1% +/- .5% ^d	7.0% +/- .41% ^d	6.2%
Notice error rate	Percentage of incorrect notices issued to taxpayers (includes systemic errors). ^c	Not comparable because of revisions to the measure.	18.7% +/- 2.4% ^d	9.4% +/- 1.2% ^d	9.4% +/- 1.60% ^d	10.3%

Appendix I
Data on IRS's Processing Performance
Relative to Fiscal Year 2001-2003
Performance and Fiscal Year 2004 Goals

(Continued From Previous Page)

Measure name	Definition	Fiscal year 2001 actual ^b	Fiscal year 2002 actual	Fiscal year 2003 actual	Fiscal year 2004 actual (through July) ^a	Fiscal year 2004 goal
Refund error rate —individual (paper)	The percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name, Social Security number, or refund amount); includes systemic errors. ^c	9.8%	8.0% +/- .46% ^d	5.3% +/- .41% ^d	4.9% +/- .43% ^d	5.3%
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.	\$36.29	\$21.43	\$66.00
Refund timeliness— individual (paper)	Percentage of refunds issued within 40 days or less.	95.2%	98.2% +/- .32% ^d	98.8% +/- .26% ^d	98.2% +/- .16% ^d	98.4%
Productivity	Weighted volume of documents processed per staff year expended at the processing centers.	30,133	28,389	30,179	30,236	29,530

Note: GAO analysis of IRS data.

^a The measures for fiscal year 2004 are through July 31, which were the latest data available at the time we ended our audit work. According to IRS officials, the 2004 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.

^d IRS estimates these measures to have a 90 percent confidence interval.

^e IRS's measure for Deposit timeliness for 2004 was not comparable to previous years because IRS changed the formula to not include weekends in calculating timeliness.

IRS Spends Thousands of Staff Years on Filing Season Activities

IRS's performance during the filing season has significant budgetary implications because IRS spends thousands of staff years on its key filing season activities.¹

Table 4 shows IRS has significantly decreased the number of staff years² used for key activities related to processing individual tax returns between fiscal years 1999 and 2003.³ The number of staff years used for key processing activities such as data transcription and correcting errors has decreased over 17 percent during this period.⁴ Beginning in fiscal year 2001, IRS separated the processing of individual and business tax returns and began consolidating paper processing centers. IRS officials expect additional savings when it further consolidates processing paper operations in Memphis, Tennessee in 2005.

¹ The source of data for this appendix is IRS's time and attendance systems, the output of which is used to calculate IRS's payroll expenses. IRS reports these payroll expenses annually in its Statement of Net Cost, the reliability of which GAO tests as part of our audits of IRS's financial statements. These audits have concluded that for the fiscal years ended September 30, 2000 through 2003, IRS's Statement of Net Cost was reliable. See GAO, *Financial Audit: IRS's Fiscal Years 2004 and 2003 Financial Statements*, [GAO-05-103](#) (Washington, D.C.: Nov. 10, 2004). Therefore, the data is likely to be reliable to show trends over time.

² Staff years and Full-Time Equivalents are units of measurement that are often used interchangeably. According to IRS, a Full-Time Equivalent is the equivalent of one person working full-time for one year with no overtime. A staff year includes overtime. Therefore, the cost of one staff year is equal to the cost of one Full-Time Equivalent plus overtime.

³ On a larger scale, we have previously reported that IRS spent about 14,065 Full-Time Equivalents for all submission-processing activities and operations (i.e., both individual and business income tax returns and other correspondence work outside of processing returns) in fiscal year 2003 or about 14 percent of its entire 98,381 Full-Time Equivalent allocation. This was down over 1,000 Full-Time Equivalents or 1 percent from around 15,101 Full-Time Equivalents used in fiscal year 2002. See [GAO-04-560T](#) and GAO, *Internal Revenue Service: Assessment of Fiscal Year 2004 Budget Request and 2003 Filing Season Performance to Date*, [GAO-03-641T](#) (Washington, D.C.: Apr. 2003).

⁴ According to IRS officials, the decrease in staff years for electronic filing is due to the reduction of documents required by IRS to be filed on paper. For example, power of attorney forms can now be filed electronically.

Appendix II
IRS Spends Thousands of Staff Years on
Filing Season Activities

Table 4: The Number of Staff Years Used in Key Processing Activities for Individual Income Tax Returns, Fiscal Years 1999–2003

	Fiscal year 1999		Fiscal year 2000		Fiscal year 2001		Fiscal year 2002		Fiscal year 2003		Difference 1999-2003	
	Individual income returns	Staff years used	Individual income returns	Staff years used	Individual income returns	Staff years used	Individual income returns	Staff years used	Individual income returns	Staff years used	Individual income returns	Staff years used
Paper processing	96,620	4,384	92,930	4,108	90,248	4,290	84,645	4,207	78,308	3,613	19% decrease	17.6% decrease
Electronic processing	29,345	280	35,406	274	40,223	302	46,841	265	54,611	226	86% increase	19.3% decrease
Total	125,965	4,664	128,336	4,382	130,471	4,592	131,486	4,472	131,919	3,839	5.5 % increase	17.7% decrease

Source: GAO analysis of IRS data.

^a Data for fiscal year 2004 were not available.

Table 5 shows that IRS has consistently directed over 8,000 staff years to CSRs answering toll-free telephone calls that are not routed to automated services.⁵

Table 5: Staff Years Directed to Answering Toll Free Calls Fiscal Year 2001–2003

	Fiscal year 2001 actual	Fiscal year 2002 actual	Fiscal year 2003 actual	Increase between fiscal year 2001-2003
Total calls (thousands)	32,786	31,496	33,168	382
Total staff years	8,397	8,340	8,491	94

Source: GAO analysis of IRS.

The total staff years used for walk-in service has increased slightly between 2001 and 2003, ranging from 2,121 in fiscal year 2001, to 2,208 in fiscal year 2002, and 2,256 in fiscal year 2003.

⁵ IRS could not provide comparable information for fiscal years 1999 and 2000.

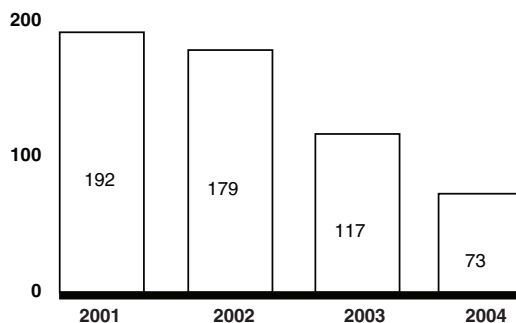
However, the time IRS spent directly on return preparation assistance at walk-in sites during the filing season has decreased significantly. As the demand for walk-in assistance has declined, IRS has assigned walk-in staff other responsibilities such as working on compliance cases. Figure 7 shows that direct Full-Time Equivalents⁶ decreased 62 percent for time spent directly (not counting overhead) on return preparation services between 2001 and 2004.

At the same time, IRS reduced its reliance on compliance staff at walk-in sites. For years, IRS detailed staff from its compliance functions, such as Examination and Collection, to help provide walk-in assistance during the filing season. IRS has now limited the number of such details. IRS reduced the number of compliance Full-Time Equivalents detailed to assist at walk-in sites from 244 in the 2001 filing season to 9 in the 2004 filing season.

Figure 7: Direct Full-Time Equivalents Used for Return Preparation at IRS Walk-in Sites, 2001-2004 Filing Seasons

FTEs

300



Source: GAO analysis of IRS data.

Note: The time periods covered by this figure are December 31, 2000 through April 28, 2001; December 30, 2001 through April 27, 2002; December 29, 2002 through April 26, 2003; and December 28, 2003 through April 24, 2004.

⁶ Staff year data were not available. According to IRS, a *direct* Full-Time Equivalent does not include overhead.

Comments from the Internal Revenue Service



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

November 8, 2004

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

Dear Mr. White:

The 2004 filing season was one of the best ever with improved telephone service, timely and effective return processing, substantial increases in electronic filing, and a successful shift in the number of tax returns prepared from our IRS walk-in sites to our volunteer sites. Also, the planned decline in the number of persons visiting our walk-in sites enabled us to provide an increased concentration on account assistance and compliance work. During the 2004 filing season, we met or exceeded many of our performance goals and made substantial progress towards achieving others.

One very successful initiative focused on the Advance Child Tax Credit (ACTC) enhancements. After successfully issuing over \$14 billion in ACTC payments to 25 million taxpayers in late fiscal year 2003, we recognized that many customers would need to know the exact amount of their ACTC to correctly file their Tax Year 2003 return. We developed an Internet application and an automated telephone feature to provide customers with the information they needed. The interactive "Remember Your Advanced Child Tax Credit" applications provided customers with the correct amount of ACTC credit they were required to report on their 2003 return. These interactive applications were convenient, easy to use and readily available through our automated telephone service and on www.irs.gov. These two applications received over 13 million inquiries from January through the end of the fiscal year. The benefits of these automated self-service solutions were numerous, including enabling us to focus our Customer Service Representative (CSR) staff on helping those truly needing personal service, increasing the likelihood that the ACTC was accurately reported on returns filed, preventing taxpayer burden, and avoiding costly error correction actions during return processing.

I believe it is important to recognize our filing season successes. I appreciate the perspective you provide in your report in recognizing these achievements. Your comparisons show how our customer-focused efforts have had a positive impact on the service we provide. Striving to achieve continuous improvement is a critical element of our strategic planning process. We recognize that we can still serve our customers better and will continue to build upon our successes.

Additional comments concerning specific filing season services are outlined below.

Telephone Service

Our telephone service continued to improve this filing season. We improved our productivity by increasing the number of calls answered per Full Time Equivalent by six percent. Callers were much more successful in connecting to our system because we decreased the number of busy signals by 42 percent even though call attempts increased 16 percent. Callers who needed to speak with a CSR also received improved service. The CSR Level of Service (LOS) measure increased from 85 percent in 2003 to 86 percent in 2004, far exceeding 68 and 71 percent LOS for 2001 and 2002. Once connected, callers needing assistance from a CSR waited an average of only 170 seconds, which is comparable to the prior year and down substantially from 274 seconds in 2002, and 334 seconds in 2001. The actions shown below contributed to this year's substantially improved customer experience:

- Consolidated the topic areas that CSRs answer by combining similar subjects to improve efficiency of call processing.
- Replaced outdated Voice Response Units with new equipment that enhanced automated service.
- Improved the work scheduling/staffing process that allowed more accurate and detailed planning to match staff to workload.

We recognize challenges remain with our telephone tax law quality performance. Early in the filing season when our performance was below expectations we took aggressive corrective actions. While we remained under our tax law accuracy goal, as a result of our efforts we made steady progress, improving our accuracy from February 2004 through the balance of the fiscal year. We anticipate continued improvement in the accuracy of tax law responses in fiscal year 2005. We also improved our accuracy for customers with account related inquiries to 89.6 percent. This was within .6 percent of our goal of 90.2 percent and an improvement of 1.1 percent from the prior year.

The results from the Toll-Free Customer Satisfaction Survey show that our customers again recognized our improved service. For the period January through March 2004, on a five-point scale, the overall satisfaction rating was 4.66 for Wage and Investment (W&I) and 4.65 for Small Business/Self-Employed. Areas where we achieved strong gains in customer satisfaction include the following:

- Ease of understanding the menu and instructions.
- Finding the appropriate menu.
- Time to get to the right person.
- Time to complete the call after reaching a representative.

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Tax Return Processing

Our emphasis on detailed planning as part of our Filing Season Readiness again resulted in a highly successful filing season. We correctly forecasted our workload receipt pattern and matched our staffing to ensure we processed returns in compliance with our goals. As a result, our returns processing activities continue to be highly effective.

Through the end of the fiscal year, we processed 129 million income tax returns and issued over \$208 billion in refunds to our customers. We successfully implemented three critical provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, as well as three provisions of the Military Family Tax Relief Act of 2003. Early in the filing season we noted higher than anticipated errors on returns caused by an incorrect calculation of the advanced child tax credit payment. We immediately initiated proactive communication with the practitioner community and the public to reverse this trend. As a result, error rates dropped from approximately 5 percent to around 3.5 percent. Despite the success of this effort, we did receive approximately 1.9 million more returns with errors than last year. Many of the error returns were associated with the advanced child tax payment. Due to our planning, we were still able to promptly handle this workload without delays in processing.

I believe it is important to recognize that we have improved our processing of individual income tax returns and generally met or exceeded performance goals for each year since 2001, despite the fact that we have established annual goals that are more challenging for each area of performance. This fact recognizes both our performance and our management philosophy of continuous improvement.

Electronic Filing and Internet Services

We are pleased that your report recognizes our achievements in electronic filing. The following are highlights of our 2004 accomplishments:

- As of October 17, 2004, over 61.5 million taxpayers filed electronically; surpassing the 52 million for the prior year. Nearly 150,000 electronic return originators participated in e-file resulting in more accurate returns and faster processing.
- Home computer e-filing increased as taxpayers filed more than 14.6 million returns from their home computers, a 21 percent increase over last year. Over 3.5 million taxpayers used the free online filing services offered by the Free File Alliance, which exceeded last year's volume of 2.8 million.
- More than 42.4 million taxpayers signed their return electronically using one of the three Personalized Identification Number options.

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- The IRS website, www.IRS.GOV, was one of the most heavily used government sites. During the 2004 filing season, we had 3.5 billion hits. The IRS continues to experience an increase in the number of page views, which exceeded 574 million. In addition, approximately 368 million forms, publications, instructions, and other documents were downloaded from IRS.GOV.
- The IRS web site handled 23 million "Where is my refund" and 11 million "Remember Your Advanced Child Tax Credit" inquiries.

For 2005 we will continue to pursue increased electronic filing of returns. We are adding six new forms that can be filed electronically, continuing to encourage free online filing services, and increasing service to electronic return preparers. Increased electronic filing results in cost and staff savings enabled us to shift these resources to enforcement and other areas.

Electronic Tax Law Assistance (ETLA)

As you stated in your report, our web site was user friendly and generally easy to access and use. On the other hand, usage of our ETLA feature, which allows taxpayers and practitioners to ask tax law questions via the Internet and receive responses via e-mail declined from 153,000 in 2003 to 90,000 in 2004. However, this decline in ETLA performance is not attributable to inadequate recognition of the relationship between ETLA prominence on the website and customer demand.

We carefully planned our staffing needs in 2004 to correspond with the volume and complexity of the questions anticipated with the ETLA link located in the same place as in the prior year. Early in the filing season we experienced unanticipated demand for this service when the ETLA option was inadvertently placed in a much more prominent web location. In addition, other non-IRS web sites began to promote the link to ETLA, which further increased unanticipated inquiries. The volume of questions received quickly exceeded our ability to deliver the service levels that we desired and contributed to a decrease in the accuracy of our responses.

ETLA was not designed nor envisioned to be a primary customer service delivery channel for large numbers of taxpayers. The ETLA feature, when compared to our other service options, was designed to serve a very limited number of customers. We also recognize the risk that inaccurate information provided through this service can be widely disseminated through the Internet. Our experience this past filing season reinforces that we cannot adequately service large volumes of individual tax law questions using an e-mail based system. Rather, large volume inquiries are best serviced through self-service tools, such as Frequently Asked Questions, Tax Trails, and ready access to all forms and publications. We will continue our efforts to effectively use the Internet as a tool to deliver information and broad market-based interactive self-service assistance options.

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Our primary method of providing direct assistance to customers with tax law questions remains our toll-free telephone system. As a result, during the past five years we have invested heavily in improving virtually every aspect of this service and we are making substantial progress toward achieving our goal of "world class" service. Allocating appropriate levels of staffing to service a large volume of e-mail inquiries would diminish our staff available to provide telephone service. In addition, telephone assistance provides several benefits to the IRS and our customers that are not found in an e-mail based system, such as:

- Access to a telephone is readily available to virtually all socio-economic strata of our diverse customer base.
- Active two-way communication between the customer and our CSR, allowing clarification of the issues and facts to arrive at a correct answer. Due to systemic limitations ETLA allows only one response opportunity to each e-mail received.
- Match-up of customer questions to CSR skill levels and the ability to dynamically route the call to an available CSR.
- Ability to answer customer calls for tax law assistance more efficiently than responding to tax law questions submitted by e-mail.

We do not plan to increase the prominence of the ETLA feature for the 2005 filing season. We will continue to offer an e-mail based option to our citizens located overseas who do not have easy access to our toll-free telephone service. We believe that maintaining this service for this small number of overseas customers is an effective way to assist them and compensate for the limited services offered due to their location.

Taxpayer Assistance Centers (Walk-In Service)

We continued efforts to enhance taxpayers' experience at our Taxpayer Assistance Centers (TAC). As your report recognizes, and consistent with IRS' strategy to shift return preparation to volunteer sites, the number of persons visiting IRS walk-in sites continued to decline in the 2004 filing season. This allowed us to redirect resources to other activities. In addition, we reduced reliance on SBSE support by 85 percent, thereby enabling these personnel to concentrate on their core enforcement responsibilities. This is attributable to the reduced return preparation, as well as operational efficiencies achieved in training and reduced Individual Tax Identification Number traffic.

Further, we continued aggressive actions to improve the accuracy of tax law assistance. We emphasized quality of responses by training all employees to use the Publication Method Guide, 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.

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To standardize the quality review process, we moved forward with implementing our long-term approach to improving quality, the Embedded Quality Business Integration (EQBI) initiative. In April 2004, we rolled out Embedded Quality (EQ), one of the four components of EQBI.

We do not agree that the IRS has limited performance measures and data on the quality of tax law assistance, account assistance, timeliness, and return preparation provided at our TACs. Field Assistance managers and quality review staff conducted anonymous visits to our TACs between October 2003 and April 2004, and asked over 1,200 tax law questions. While the results of these visits did not produce a statistically reliable sample, we did consider the data valuable and used it to identify training needs and other actions to improve accuracy of responses to tax law questions.

We are currently using the EQ data we collected since April 2004 to assess performance in our TACs. EQ provides a statistically reliable sample, facilitates consistent reviews of employee performance, and delivers comprehensive data that defines our overall level of quality incorporating tax law, accounts, and return preparation assistance. We are pleased to report that through the end of FY 2004, more than 10,000 entries into the EQ database reflected an overall 96 percent level of quality for these services.

Also, we recognize there may be a slight bias in data we gathered under EQ because employees know when they are being directly observed. However, we disagree that the data gathered by these observations may not be representative of true performance. We compensate for the potential bias through our approach to monitoring, measuring, and ultimately improving quality. As a result, we believe the volume of observations being conducted and the data gathered is a reasonably reliable measure of employee performance.

You stated in your report that both the TIGTA and IRS reported the IRS had not reached its goal of 80 percent tax law accuracy at the walk-in sites they visited. Prior to the implementation of EQ, the IRS' official measure of tax law accuracy for FY 2004 was based on modified TIGTA results¹. However, it should be noted that the results from visits conducted by our quality review staff and managers indicate we exceeded our 80 percent goal for tax law accuracy. The accuracy rates from the quality review staff and manager visits from October 2003 through April 2004 were 86 percent and 93 percent, respectively.

We agree we did not measure the timeliness of our service at walk-in sites as stated in your report. For the same reasons noted in our responses to your 2002 (GAO-03-314²)

¹ IRS excluded referrals to publications, referrals to other employees, and service denied when computing the tax law accuracy rate.

² GAO, *Tax Administration: IRS's 2002 Filing Season: Returns and Refunds Processed Smoothly; Quality of Assistance Improved*, GAO-03-314 (Washington, D.C.: Dec. 20, 2002).

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and 2003 (GAO-04-84³) filing season reports, we do not agree that it is necessary to consolidate and report TAC wait-times. However, as observed in your 2003 report, Q-matic sites were not required to report wait-time information to headquarters. We agreed with this observation and required Q-matic sites to report wait-time information on a quarterly basis. This data is being evaluated to identify overall trends in timeliness and quality.

Volunteer Return Preparation

Through September 30, 2004, over 1.93 million returns were filed through Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly sites, an increase of 20.4 percent over 2003. Other achievements include:

- More than 262 million outreach contacts, including over 190 million through media channels (television, radio, newspaper, etc.), and 72 million through non-media channels (seminars, etc.).
- Increased outreach to the underserved population (low-income, elderly, disabled, and Limited English Proficient) by expanding the community-based coalitions from 160 in 2003 to 265 in FY 2004.
- Increased electronic filing (of the 1.93 million returns prepared in FY04 by volunteers, 71 percent were e-filed).

Your report indicates that as of September 2004, IRS had missed its milestones for developing guidelines for monitoring volunteer sites. It should be noted that you received an abbreviated version of our action plan, which has been revised to include additional steps that will be taken to ensure milestones are met. While expansion of our initial plan resulted in later completion dates, these revisions will not impact timely implementation for the FY 2005 filing season. In addition, performance measures are under development for the FY 2005 filing season to establish a baseline for use in establishing performance goals and standards for FY 2006.

Also, we are pleased to report the development of the multi-year quality business plan for our VITA program is complete. Its components include the following five strategies:

- Provide volunteers the training they need.
- Establish a set of standardized operating procedures for taxpayers, volunteers, and partners.

³ GAO, *Tax Administration: IRS' 2003 Filing Season Performance Showed Improvements*, GAO-04-84 (Washington, D.C.: Oct. 2003).

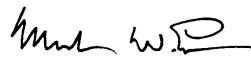
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- Ensure all participants in the volunteer return preparation program understand their respective roles, responsibilities, and capabilities.
- Continually assess the quality of the volunteer return preparation.
- Proactively communicate quality improvement efforts to stakeholders.

Significant actions associated with the five major strategies that support appropriate operational priorities are either complete or underway.

Responses to your specific recommendations are enclosed. I appreciate your observations on the successful filing season for 2004. If you have any questions, please contact Floyd Williams, Director, Legislative Affairs, at (202) 622-3720.

Sincerely,



Mark W. Everson

Enclosure

Enclosure

Recommendation for the Commissioner

With respect to the Web site's ETLA feature, we recommend that the Commissioner recognize, that decisions about the prominence and staffing to give the feature are related.

Response

We fully recognize the relationship between the prominence of the ETLA web location and the need for commensurate staffing. We do not plan to offer ETLA as a prominent web site tax law service option during the 2005 filing season. We will continue to provide tax law assistance to overseas citizens using an e-mail based system targeted to meet their specific service needs.

Recommendation for the Commissioner

Recognize and disclose the limitations of the Embedded Quality performance data that will be obtained by direct management observation in 2005 when interpreting and reporting on service quality at walk-in sites.

Response

Our Embedded Quality Business Integration (EQBI) Initiative, when fully implemented, will provide a standardized approach to improve the quality of services provided in our TACs. We recognize the limitations of Embedded Quality and will continue to disclose any limitations when reporting on service quality at walk-in sites. Without the benefits of Contact Recording, which records employee/taxpayer interactions in the TACs, managers' direct observations of employees may result in a slight bias because the employees know they are being observed. We communicated these limitations in briefings with all levels of IRS management and outside stakeholders and will continue to do so. However, because of the volume involved, we disagree that the data gathered by these observations may not be representative of true performance.

Recommendation for the Commissioner

Ensure that the causes of delays in implementing improved quality measurement at walk-in sites are addressed.

Response

We will ensure that the causes of delays in implementing improved quality measurement at walk-in sites are addressed. The delay in the implementation of

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Contact Recording as a companion to EQ is attributable to the lengthy approval process for the required Privacy Act System of Records Notification, which is beyond our control. However, we expect to begin the pilot for Contact Recording by January 2005. Our original target date for post-pilot initial implementation is the last quarter of Fiscal Year (FY) 2005, and we remain on target to meet that date.

Recommendation for the Commissioner

Ensure that the delays with the development and implementation of the Quality Assurance initiative at volunteer sites are addressed.

Response

While expansion to the initial plan resulted in later completion dates, these revisions will not impact timely implementation for the FY 2005 filing season. We will continue to revise and review our action plan as appropriate, while ensuring the quality initiatives at volunteer sites are implemented timely and delays are addressed.

GAO Contacts and Staff Acknowledgments

GAO Contacts

James White, (202) 512-9110
Joanna Stamatiades, (404) 679-1984

Acknowledgments

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