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TAX ADMINISTRATION

Tracking Taxpayer Information About IRS Notices Could Reduce Burden





GAO

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United States General Accounting Office
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General Government Division

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The Honorable Bill Archer
Chairman, Committee on Ways and Means
House of Representatives

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

In fiscal year 1998, the Internal Revenue Service (IRS) sent over 80 million notices to individual taxpayers about various enforcement actions, such as audits or demands for payment of past due tax debts. If taxpayers disagreed with or did not understand how to respond to a notice, they could call IRS toll-free. In fiscal year 1998, IRS received at least 20 million calls regarding notices. Notices that are wrong or not easily understood may impose a burden on taxpayers that is potentially preventable.

Given your interest in reducing taxpayers' burden and whether information obtained during telephone calls from taxpayers about notices could be useful in identifying notices that are causing certain problems, such as confusing instructions or incorrect information, you asked us to determine (1) whether IRS tracks information about notices from individual taxpayers who call IRS and (2) if not, whether such a tracking system could be useful and feasible. To answer these questions, we talked with responsible IRS officials, visited three other tax agencies,¹ and reviewed relevant literature. We based our assessment of the usefulness, feasibility, and cost of tracking information about notices on the views of IRS officials.

¹Another GAO team is visiting several outside tax agencies as part of a review of IRS telephone assistance and has learned that these entities collect information from taxpayer calls. Specifically, these agencies included Canada's Department of Customs and Revenue, Illinois' Department of Revenue, and California's Franchise Tax Board.

Results in Brief

IRS does not track information² during telephone calls from taxpayers about notices. Such information could include the number of calls generated about each notice or the problems cited during the calls. Instead, IRS identifies problem notices through ad hoc discussions with IRS employees who have interacted with taxpayers. IRS officials said that it has not developed a tracking system because its higher priority is modernizing IRS' computer systems and stabilizing its existing systems as it modernizes.

IRS officials said that a tracking system could be useful in improving notices. They said that the degree of usefulness would depend on the information tracked. For example, they said that it would be useful to track information about notices that generated the most calls or the most problems so that the most significant problems could be addressed. In addition, the literature we reviewed and three other tax agencies we visited reported that collecting such information from customers was useful, for example, in identifying problems.

IRS officials believed it would be feasible to track some information about notices during telephone calls. These officials identified at least three existing systems that could be modified to track information, such as the type of notice and problems associated with the notice. These systems included one that helps IRS assistors handle all calls, a quality review system for a sample of calls, and a system used to survey a sample of callers about their satisfaction with IRS' services. IRS officials also identified planned systems that could be enhanced to track notice information.

The cost of tracking information from taxpayers about notices is also an important factor in deciding whether such a tracking system is economically feasible. Costs would include those to modify an existing system and to enhance computer systems that are to be developed over the next 5 to 7 years so that they collect the information about notices. The amount of additional cost incurred to collect the information would depend on the number of calls involved in the tracking, the amount of information collected, and the extent to which extra time is spent on such calls. For example, collecting information from a sample of calls would cost less than collecting information from all calls.

²By "track" we mean, a systematic way for IRS to collect and compile taxpayer information from telephone calls. By "information," we mean any type of input that IRS receives during the calls, such as comments or inquiries about a notice.

IRS officials raised two concerns with modifying an existing system for the purpose of tracking in the short term. First, the officials said that major modifications to an existing system could create instability in that system, causing other problems. Second, the officials were concerned that spending significant resources to modify any existing system could disrupt IRS' computer modernization effort.

We are recommending that IRS explore the cost-effectiveness of both modifying one of the existing systems and enhancing one of the planned systems in order to track some information from taxpayers who call about notices. To the extent warranted, IRS should make the modifications and the enhancements as soon as possible.

Background

Each year, IRS sends millions of notices to individual taxpayers. Notices are often the first IRS contact with taxpayers to alert them to potential tax problems, such as unpaid assessments, changes to reported assessments, and errors found on filed tax returns. In fiscal year 1998, IRS sent over 80 million such notices to individuals. If notices are unclear, inaccurate, or unnecessary, they can lead to taxpayer mistakes and contacts with IRS through calls, correspondence, or visits.

Each notice includes a toll-free telephone number that taxpayers can call to discuss a notice. IRS also has toll-free numbers that allow taxpayers to request forms and ask questions about tax law. During fiscal year 1998, taxpayers made 100 million telephone calls to these toll-free lines.

In recent years, we have issued three reports that identify problems with IRS' written products such as correspondences, forms, publications, and notices.³ These problems include information sent to taxpayers that was incorrect or unclear, among other things. Our reports also discussed the need to improve these written products and to track information on taxpayer concerns. Appendix I summarizes these three reports.

IRS has the following three systems that contain some data about notices or calls.

³Tax Administration: More Improvement Needed in IRS Correspondence (GAO/GGD-94-118, June 1, 1994); Tax Administration: IRS Notices Can Be Improved (GAO/GGD-95-6, Dec. 7, 1994); and Tax Administration: IRS Efforts to Improve Forms and Publications (GAO/GGD-95-34, Dec. 7, 1994).

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- The Integrated Case Processing system provides telephone assistors with historical taxpayer data, such as the dates of notices, from several IRS databases to help respond more effectively to taxpayer calls.
 - The Quality Review Database (QRDB) enables IRS to review and collect data on the quality of employees' interactions with a sample of taxpayers, which is used to determine how well IRS telephone assistors respond to taxpayers.
 - The Customer Satisfaction Survey collects data from a sample of taxpayers on their satisfaction with IRS services, such as toll-free telephone lines.

Within the next 5 to 7 years, IRS plans to develop sophisticated systems that contain a history of written and telephone contacts between IRS and individual taxpayers. Appendix III summarizes these existing and planned systems.

Scope and Methodology

To obtain information on whether IRS tracks information about notices in calls from individual taxpayers, we talked to IRS officials in the Customer Service Division and the Office of the Taxpayer Advocate.⁴ We obtained information on IRS' notices and telephone systems, including the number of notices sent and telephone calls received.

To determine the potential usefulness of tracking information about notices from calls, we talked to IRS' Customer Service and Taxpayer Advocate officials. We reviewed our previous reports with recommendations about notices and available literature on customer service. We also reviewed information from one of our ongoing reviews to determine how three other tax agencies used information obtained during taxpayers' calls about notices.

To learn about the potential feasibility of tracking information about notices from calls, we discussed various ways of doing so, such as potential modifications to existing systems, with responsible IRS officials. We obtained information about systems used by other tax agencies and described in the literature to identify established ways of collecting information from telephone calls. In addition, we talked to the IRS officials and obtained information from the literature on the types of costs that would be incurred in tracking information about notices from calls.

⁴IRS' Customer Service Division is responsible for the notices and toll-free telephone services, among other things. IRS' Taxpayer Advocate is responsible for helping taxpayers resolve long-standing tax problems as well as addressing systemic problems with the tax system.

We did our work at IRS' headquarters offices in Washington, D.C., and New Carrollton, MD. We also did work in IRS' Western Region, Northern California District Office, and Fresno Service Center because of the close proximity of our staff in San Francisco. Finally, we did work at the three other tax agencies in Springfield, IL; Sacramento, CA; and Ottawa, Canada. Our work was done between October 1999 and February 2000 in accordance with generally accepted government auditing standards.

On March 17, 2000, we met with representatives of the Commissioner of Internal Revenue to obtain comments on a draft of this report. IRS' written comments are discussed at the end of this letter and reprinted in appendix IV.

IRS Does Not Track Information About Notices From Taxpayers Who Call IRS

IRS has no system to track information from taxpayers who call about notices. IRS officials said that creating a tracking system has not been as high a priority as modernizing IRS' computer systems. To that end, IRS officials said they also place a high priority on stabilizing existing systems until the modernized computer systems are implemented in the next 5 to 7 years.

Further, IRS has no existing system that links information from its separate telephone and notice systems. IRS counts the number of notices for about 80 types of notices for individuals. IRS has been issuing over 80 million notices in recent years to an estimated 43 million taxpayers. IRS also counts the number of telephone calls received on its toll-free lines about such topics as tax forms, tax law, tax refunds, and notices. IRS knows that at least 20 million of these calls involved notices, but not which notices or why taxpayers called about them.

Without a systematic way to track information about notices from taxpayers, IRS relies on employees' recollection to identify notices that are causing problems for taxpayers who visit or call IRS when problems with notices occur. IRS has no system that regularly compiles data from the employees to identify which notices are causing the most problems for taxpayers. Rather, this method for identifying problem notices occurs on an ad hoc basis. IRS officials believe this method identifies notices causing the most problems. However, IRS has not measured the cost-effectiveness or representativeness of this method for identifying problem notices.

Although IRS has not tracked information about notices from taxpayers' calls, IRS has recognized problems with its notices. In 1995 and 1996, IRS' Notices Reengineering Project identified notices that could be eliminated

or consolidated. In response to recommendations in the 1997 National Performance Review (NPR) report,⁵ IRS took steps to implement recommendations for improving notices. For example, IRS created a senior-level notice gatekeeper position to oversee and coordinate notice-related activities. More recently, IRS has been working on other initiatives to improve notice operations. Appendix II summarizes many of these IRS efforts.

Tracking Information About Notices From Taxpayers Who Call IRS Could Be Useful

IRS officials said that tracking information about notices during calls from taxpayers could be useful in improving notices. IRS is placing a greater emphasis on improving customer service and reducing taxpayer burden. To meet these ends, IRS officials said that knowing the reasons that taxpayers call about notices would be worthwhile information to gather.

These IRS officials also said that the usefulness of the tracking would depend on the amount and specificity of the information. For example, knowing which notices generated the most calls could be indicative of problems with the notices. Knowing the specific reasons for the calls and problems with the notices—such as confusing instructions, incorrect information, or unnecessary notices—also would be useful.

With enough specific information from tracking, IRS could isolate the problem and potential solutions or decide to study the problem and solutions in a targeted fashion. Such actions could help to reduce the burdens on taxpayers as well as IRS' costs, particularly if IRS no longer sent unnecessary notices or had to respond to calls about confusing, incorrect, or unnecessary notices.

Outside IRS, the concept of tracking information from customers is well-established. We found this to be true in our visits to three other tax agencies as well as in our reviews of the NPR report and the literature.

In our discussions with the three other tax agencies⁶ regarding the usefulness of tracking information about notices during calls from taxpayers, we were told that these agencies have found tracking to be useful. For example, these agencies generally used the tracking to identify why taxpayers called in order to isolate a specific problem, such as with a particular notice, that generated the call. These agencies also used this information to identify ways to fix the problem and thus reduce the need

⁵Reinventing Service at the IRS, IRS Publication 2197 (Mar. 1998).

⁶As previously mentioned, these tax agencies served Canada, Illinois, and California.

for taxpayers to call. Specifically, the methods used for the tracking and the uses of the information tracked at these agencies were the following:

- a study of a statistically valid sample of calls to profile the specific nature of calls and identify notices that created problems;
- surveys of samples of callers to identify the root causes of the need to call and the actions that could address potential problems before they occur; and
- a computer coding system to identify problems that were generating calls and to provide information for improving customer service.

The NPR report pointed out that the best companies in America handle customer problems by making it easy for customers to complain when they are dissatisfied. In fact, the NPR report recommended that IRS create a system to track complaints from taxpayers.⁷

Our review of selected literature showed that the best companies viewed complaints as a valuable source of information about their operations and about problems that they can fix. When a complaint leads an organization to understand and fix a problem, overall performance can improve and costs can be reduced. IRS has provided its managers in Customer Service with a book that summarizes the usefulness of capturing customer feedback.⁸ The book states that outstanding customer care, among other things, gathers sufficient data about the call to improve market intelligence and elicit feedback to help prevent any such call in the future. This philosophy seems to be common among businesses that handle calls from customers.

Tracking Information About Notices From Taxpayers Who Call IRS Would Be Feasible

IRS officials believed that tracking information about notices from taxpayers who call would be feasible. IRS officials identified at least three existing systems that involve customer service activities and could be modified to track at least limited information about notices when taxpayers call. One would track information from all taxpayers who call about notices. The other two systems would collect the information from samples of taxpayers. The following summarizes each system and possible modifications.

⁷IRS recently developed two systems to track taxpayer complaints about IRS employees and long-standing unresolved problems. To date, these systems have not focused on complaints about notices. IRS officials responsible for these systems said many programming changes would be necessary to specifically track information about notices. Also, neither of these systems are part of the Customer Service Division, which is responsible for telephone services and notices.

⁸Michael Cusack, Online Customer Care: Applying Today's Technology to Achieve World-Class Customer Interaction (Milwaukee, WI, ASQ Quality Press, Mar. 1998).

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- Integrated Case Processing. This comprehensive computerized system, among other things, provides the telephone assistor with access to existing IRS databases on taxpayers' accounts, which better equips the assistor to address taxpayers' calls. This system also provides a history of actions taken on each account. The modification would be to add data fields during system upgrades on why the taxpayer called about a particular notice.
 - QRDB. IRS selects samples of calls to review the quality of staff responses in serving the taxpayer. Quality reviewers listen to these calls and record the results on a checksheet. IRS enters the results into a database that already has data fields that could be used to record the type of notice and reasons that taxpayers called. The modification would be to revise the quality review checksheet and procedures to collect information about notices from the taxpayers in the review samples.
 - Customer Satisfaction Survey. IRS does a telephone survey with samples of taxpayers after they finish their calls to the telephone assistants. The survey attempts to assess taxpayers' satisfaction with the service received during calls. The survey already asks, through electronic queries on the telephone, for their satisfaction with calls about notices. The modification to this survey would be to ask about the type of notice and the problem with it.

Cost to Track Within Existing Systems

IRS has not studied the costs, including taxpayer burden, of modifying these existing systems and collecting information about notices from taxpayers' calls. Even so, IRS officials said that these costs would not necessarily be prohibitive if the modifications and collection methods were fairly minor. These officials represented IRS' notice and telephone programs as well as each of the three systems.

IRS officials had some comments about certain potential costs from doing the tracking through one of the three existing systems. These officials usually commented on the costs to modify a system and collect the information rather than the costs to later analyze the information to identify any problems and develop solutions.⁹

⁹The costs to collect the information from taxpayers would be a function of how much information is collected. In discussions with IRS officials, we assumed that the systems would at least track the specific notice and specific problem or issue with that notice. In addition to the amount of information collected, analysis costs would be a function of other factors, such as the method used and need for any follow-up study or data collection to identify the root causes or test possible solutions.

In general, IRS officials believed that the modification costs would be greater for the Integrated Case Processing system. They pointed to the need for computer programming changes to collect and record the information about the notice. Also, IRS would incur some costs to train the telephone assistors in order to ensure consistent collection of the information.

Modification costs for the QRDB and Customer Satisfaction Survey systems would be less extensive; at least a couple of items would be added to both the reviewer checksheet and the survey. IRS officials generally did not view these costs to be high, particularly if the changes were procedural in nature. In addition, IRS' office responsible for the survey said reprogramming would have to be done to add the questions to the telephone system.

Such modifications would not necessarily require much training for IRS employees. Some training would be needed so that the (1) telephone assistors would know how to probe for more information, if necessary, and (2) quality reviewers would know what to listen for when taxpayers call about notices or how to consistently record the information collected.

The cost of collecting the information would depend on the number of calls involved in the tracking, the amount of information collected, and the amount of any extra time spent on the calls. Statistically sampling from among the calls would cost less than collecting the information from all calls. If the sampling represented the universe of calls, it could achieve the same end as collecting information from all calls.

A longer call would add to the time that IRS employees spend in collecting the information and could potentially burden taxpayers in two ways. First, the caller could feel burdened by the added time. Second, a longer call—to the extent that the existing number of telephone assistors would handle fewer calls in a day—could limit or delay access for other taxpayers who are trying to call IRS for assistance.

IRS officials believed that using the Integrated Case Processing system could lengthen the telephone calls as the assistor records the information collected from taxpayers. Using the Customer Satisfaction Survey would not extend the time spent with the assistor, but could require the taxpayer to spend additional time afterwards answering questions about notices during the survey by pressing buttons on the telephone. Of course, taxpayers could opt not to participate. The QRDB would be unlikely to

extend the call, unless the assistor had to probe more than usual to identify the specific problem with a specific notice.

IRS Officials Have Concerns About Tracking

IRS officials raised concerns with modifying an existing system for purposes of tracking in the short term. First, the officials said that major modifications to an existing system could create instability in that system, causing problems elsewhere in IRS. Second, the officials were concerned that spending significant resources to modify any existing system could disrupt IRS' computer modernization effort, which is among IRS' highest priorities. For both concerns, IRS officials pointed to the Integrated Case Processing system as one that would be vulnerable to such instability and disruption.

As IRS undergoes computer modernization over the next 5 to 7 years, IRS officials said that developing the tracking capability could be done with less instability and disruption through the modernization effort than with short-term modifications to an existing system. Although none of the planned computer systems being developed currently allow for a tracking capability, IRS officials identified several planned systems that could be enhanced at acceptable costs to track the information (see app. III).

For example, one planned system, known as Customer Relationship Management Core, is being designed to provide a history of contacts—including notices and telephone calls—with specific taxpayers. IRS officials said that the cost-effectiveness of adding the tracking capability to this or any other planned system would have to be analyzed and compared to the cost-effectiveness of other computer modernization requirements.

Other Views on Feasibility and Costs

Our review of the three tax agencies and the literature showed that tracking information from taxpayers when they call is feasible. For example, each of the three tax agencies, as previously discussed, has found some feasible tracking method, such as computer coding and surveys of random samples of calls.

Similarly, the literature reported that many companies have found tracking to be feasible and discussed cost issues. For example, the literature discussed the potentially high costs of tracking extensive information and analyzing detailed root causes of any problems identified by the tracking.

Ultimately, the extent to which tracking and analysis are done depends on how the organization views and uses the results and justifies the costs. According to selected literature, if tracking and analysis were viewed as investments instead of expenses and the results were shared across the

organization, their cost-effectiveness could become apparent. Sharing direct customer information in this manner could significantly contribute to the products and services that the organization offers.

Conclusions

IRS has not tracked information about notices that taxpayers provide during calls. IRS' efforts to modernize its computer systems and stabilize existing systems have been higher priorities. However, the literature and three other tax agencies we reviewed have found that tracking information from customers is useful and feasible, and IRS officials believe that such tracking could be useful and feasible for improving notices.

For the short term, IRS has at least three existing systems that could, with modifications, make tracking information about notices feasible. Beyond modification costs, other costs would be incurred in extending the time spent on calls to collect and compile the information. Collecting limited information, such as the type of notice and problem, from a random sample of calls rather than all calls could reduce these costs. For the long term, the costs to enhance one of the planned systems that involve taxpayer contacts could be acceptable. IRS officials also expressed concerns about making major modifications that would create instability to existing systems and disruptions to IRS' computer modernization effort.

The benefits of tracking could be substantial because of the large number of taxpayers who call IRS about notices. If the information helps IRS to correct specific problems with specific notices, IRS could reduce the number of problem notices and the need for some portion of the 20 million or more annual calls about notices. The related benefits would be lower administrative costs and less burden on taxpayers who receive notices.

Recommendations

To help IRS' efforts to improve notices, we recommend that the Commissioner of Internal Revenue direct responsible staff to explore, as soon as possible, the cost-effectiveness of tracking information from taxpayers who call about notices by modifying one of IRS' existing systems in the short term. IRS also should explore the cost-effectiveness of doing such tracking by enhancing one of the planned systems being developed as part of IRS' long-term modernization effort.

In determining the cost-effectiveness of doing the tracking through both the existing and planned systems, IRS should consider the gains to customer service from improving the notices and the impacts on other IRS systems and priorities. To the extent that cost-effectiveness is determined for these existing and planned systems, IRS should make the modifications and the enhancements as soon as possible.

Agency Comments

On March 17, 2000, we met with officials from IRS' Customer Service Division to discuss their comments on this report. IRS' written comments are reprinted in appendix IV.

IRS officials told us they agreed with our recommendation to explore the cost-effectiveness of modifying one of IRS' existing systems to track feedback about notices from taxpayers who call IRS. After analyzing the costs to modify these existing systems, IRS officials said that QRDB would be used to begin collecting the data by April 1, 2000. They also said that QRDB is the best system to use because it would require no systemic changes and would have no impact on taxpayers or telephone assistants.

IRS officials told us they generally agreed with our recommendation that IRS explore the cost-effectiveness of doing such tracking by enhancing one of the planned systems being developed as part of IRS' modernization effort. IRS officials said that all three future systems discussed in our report would be excellent tools for quality reviewers to use with QRDB to further identify specific problems that taxpayers have with notices. They said that IRS would continue to explore the possible uses of these systems as they are developed.

IRS officials also told us they generally agreed with our recommendation to consider customer service and impacts on other IRS systems when determining the cost-effectiveness of doing the tracking. IRS officials said they considered these issues in choosing QRDB as the existing system through which to do the tracking. At our March 17 meeting, IRS officials told us that as IRS develops its planned systems, it also would account for such considerations in determining the cost-effectiveness of doing the tracking.

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

If you have any questions regarding this report, please contact Tom Short or me at (202) 512-9110. Key contributors to this assignment were Kathleen Seymour and Rodney Hobbs.

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Abbreviations

IRS	Internal Revenue Service
NPR	National Performance Review
QRDB	Quality Review Database

Previous GAO Reports on IRS Notices and Taxpayer Inquiries

The following are our previous reports pertaining to Internal Revenue Service (IRS) notices and correspondence.

Tax Administration: More Improvement Needed in IRS Correspondence (GAO/GGD-94-118, June 1, 1994). We reported that IRS' responses to taxpayer letters had continually been delayed, inaccurate, incomplete, and confusing. IRS had made progress in correcting these problems by adopting quality and timeliness standards and by expanding quality reviews of outgoing mail; however, some problems persisted. We recommended, among other things, that IRS clarify its

- notices, letters, and publications to better inform taxpayers of those situations that can be handled by a telephone call and
- procedures for responding to taxpayer requests to ensure that their questions do not go unanswered.

Tax Administration: IRS Notices Can Be Improved (GAO/GGD-95-6, Dec. 7, 1994). We reported that IRS annually sent millions of notices to taxpayers about the status of their tax accounts. We reviewed 47 of the most commonly used notices and identified clarity concerns with 31. We also found that IRS' ability to improve its notices was adversely affected by limited computer programming resources and higher priority programming requests. Further, the lack of a system to track the progress of proposed changes to notice language limited IRS' ability to oversee improvements to the clarity of notices. We recommended changes to IRS' process for generating and revising notices.

Tax Administration: IRS Efforts to Improve Forms and Publications (GAO/GGD-95-34, Dec. 7, 1994). We reported that providing taxpayers with easy-to-read tax forms and publications was a difficult task for several reasons. Because the tax code was frequently revised, many publications must also be revised annually under short time constraints. In addition, taxpayers' comprehension levels can vary. Generally, we found IRS' process for developing and revising tax forms and publications to be reasonable. IRS maintained a dialogue with tax professionals and attempted to generate feedback from taxpayers.

We recommended that IRS take additional steps to identify the specific concerns of individual taxpayers. Specifically, gathering information on the nature of taxpayer questions through its toll-free telephone system and soliciting input from IRS field personnel who have more contact with taxpayers would generate additional useful feedback to IRS.

IRS Initiatives to Improve the Notices It Sends to Taxpayers

IRS has engaged in a number of efforts to improve its notices. These include a three-phase Notice-Reengineering Project, a review on reinventing IRS service to taxpayers, and ongoing initiatives designed to improve notices and customer service. The following summarizes each of these efforts.

Notice-Reengineering Project

The first phase of the Notice-Reengineering Project was to reduce the number of notices generated by 30 percent, beginning at the start of the 1996 tax filing season. The analysis focused on 44 high-volume notices that had generated about 106.7 million notices. In December 1995, IRS reported that if the project's recommendations were implemented, 51.8 million fewer notices would be generated with near-term cost savings of \$160.1 million.

The second phase looked at notices not analyzed in the first report. IRS reported in May 1996 that if all of the project's recommendations on these other notices were implemented, the total reduction in notice volume would be 3.6 million notices, with cost savings of \$10.9 million. The team estimated that of the \$10.9 million savings, \$1.4 million was related to issuing notices and \$9.5 million was related to resolving notice inquiries.

The third phase examined notices and correspondence that the first two teams did not review. IRS reported in October 1996 that if all of these recommendations were implemented, the direct savings would total \$23.9 million (\$10.5 million related to issuing the notices and \$13.4 million in resolution costs) and notice volume would be reduced by 5.9 million notices.

Customer Service Task Force Report: Reinventing Service at the IRS

The report from the IRS Customer Service Task Force of the National Performance Review identified over 200 actions that would improve service to taxpayers, including 38 actions for simplifying forms, notices, and correspondence and 11 actions for providing better telephone service.

IRS interviewed taxpayers and tax practitioners and held focus groups to identify problems with notices, revised and eliminated some notices, and surveyed taxpayers to determine if the changes were effective. IRS also created a notice gatekeeper position as recommended in the report. Further, IRS set up a plan for implementing the report's recommendations, which resulted in some of them being reprioritized. IRS is still working to fully implement these recommendations.

IRS Initiatives to Improve Notices

The Office of the Notice Gatekeeper, which coordinates notice-related activities, established an action plan for several initiatives to improve notices and the activities of the office. Updated monthly, the action plan summarizes each initiative and provides the names of responsible employees, status changes, and near- and long-term target completion dates. Following are some of the February 2000 updated entries to indicate the range of initiatives.

- Finalize contracts for redesigning notices that have not been redesigned, identifying notices suitable for consolidation, and analyzing suitability of sending notices that involve small dollar amounts.
- Hire staff to help eliminate notices that were identified as suitable for elimination.
- Resolve major impediments to providing screens for “notice viewing,” which would allow telephone assistants to access on their computer screens the actual notices and taxpayers’ historical records to help answer questions from taxpayers.
- Develop a system with word processing capabilities to customize letters to taxpayers when warranted.
- Design and build Intranet and Internet Web sites to serve as ready-reference sources for taxpayers and IRS, answer frequently asked questions, and make copies of the most current version of each notice available on-line to taxpayers.
- Train new employees in IRS requirements for notice clarity and notice design.
- Develop survey questions to capture notice-related customer satisfaction information.
- Eliminate local (district) notices or incorporate them into the national system of notices, when appropriate, to be more consistent in contacting taxpayers.
- Set up an annual notice conference within IRS to establish goals and timetables for the next year and to resolve operational problems.
- With contractor assistance, do comprehensive analysis of the notice process, implement identified process changes as appropriate, determine whether organizational changes are needed, and design revised structure.
- Develop a notice management information system that can eventually collect, trend, and analyze notice workload data.

Existing and Planned IRS Systems That Could Involve Tracking

IRS has systems in place, and planned, that might be modified to track information about notices from taxpayers who call IRS. IRS officials said that although these systems were not specifically designed to capture such information, it would be feasible to modify them. Following are brief summaries of the existing and planned systems.

Existing Systems

Integrated Case Processing. IRS' Integrated Case Processing system provides a series of questions and prompts to help telephone assistors work through various kinds of taxpayer issues, as well as make queries and update taxpayer accounts, with assurance that the data will be reconciled among the different databases. It is to have a call-routing feature to route taxpayers' calls to the next available assistor who would be most skilled at addressing a taxpayer's question or issue. IRS officials view Integrated Case Processing as a temporary system to bridge current older systems to the modern systems being developed. IRS plans to deploy Integrated Case Processing to the remaining Service Center customer service sites after the 2000 filing season.

Quality Review Database (QRDB). Working in two phases—review of telephone calls and review of paper cases—QRDB consolidates Customer Service quality reviews into one database at the Philadelphia Customer Service call site. In the quality review, IRS staff monitor and score telephone assistors' responsiveness and accuracy in responding to taxpayer inquiries for a statistically projectable sample of taxpayers. Managers can review on-line quality results on the database. IRS is currently developing another database to analyze the content of IRS assistors' interactions with taxpayers in the sample. The goal is to determine what factors drive taxpayer demand for telephone assistance. IRS expects to obtain its first results in June 2000.

Customer Satisfaction Survey. This is an ongoing survey being done to measure taxpayer satisfaction with IRS' toll-free lines, identify issues that influence taxpayer satisfaction ratings, and identify areas where improvements will have the greatest impact on taxpayer satisfaction. When a taxpayer calls an IRS toll-free line, he or she may be notified at the end of the call that a predetermined sampling pattern has selected this call for the survey. If the taxpayer agrees, the call is transferred to another person who asks questions about the taxpayer's overall satisfaction with 10 criteria, such as courtesy of the IRS assistor, ease of getting through, or completeness of information received. The survey does not ask about taxpayer satisfaction with notices.

Planned Systems

Correspondence and Document on Demand Imaging. This system is to support the electronic processing of taxpayer correspondence and selected documents as requested from IRS service center files and the federal records centers. Generally, the imaging system will allow telephone assistors to display an electronic image of correspondence in an electronic case folder while servicing the taxpayer. It will also reduce the manual effort that is currently required to retrieve and handle paper documents, such as tax returns. The imaging system is to be built incrementally with a completion date of 2005.

Customer Relationship Management Core. This system is being designed around an universal case folder that will capture information from each taxpayer and track all transactions, such as notices, forms, publications, and letters, that the taxpayer receives until the case is closed. A telephone assistor would be able to pull up this historical information each time the taxpayer called in. It could also capture feedback for management purposes. The project's completion is scheduled between 2005 and 2007. It will have components for IRS' Examination and Collection Divisions that are to aid in resolving taxpayer cases. The system is to be initially deployed in Examination by May 2001, but initial deployment has not yet been scheduled for Collection.

Customer Account Data Engine. This system is a repository for tax account and tax return information and will assist in tax administration. It will incrementally replace the IRS Master Files and Integrated Data Retrieval System that are becoming obsolete. The new system will begin with the simplest accounts and returns—those in the Wage and Investment Business Operating Division—and will be the foundation for many future projects that need taxpayer account and return data. Completion of the initial phase is scheduled for 2005, with total system completion by 2007.

Comments From the Internal Revenue Service



DEPARTMENT OF THE TREASURY
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March 21, 2000

Ms. Cornelia M. Ashby
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Washington, D.C. 20548

Dear Ms. Ashby:

Thank you for the opportunity to review and comment on GAO's draft report entitled "IRS' Tracking of Information from Taxpayers Concerning Notices (Job Code 268899)," which focuses on capturing taxpayer comments about our notices. The report gives a fair and balanced assessment of our efforts to improve the notices we send to taxpayers.

The IRS continues to face many challenges in its pursuit of clear, concise notices. We expect that our hard work will begin coming to fruition in mid-April, when we start mailing the first six of our redesigned notices to taxpayers. By the end of this year, we plan to begin a process to redesign 25 – 100 more notices. In early 2001, we plan to implement our "Notice Viewing Project," which will allow telephone assistants to view on their computer screens duplicates of notices sent to taxpayers. We are also reviewing the feasibility of a plan that will allow us to eliminate notices involving small dollar amounts.

We are pleased that you included our recent improvements and successes, specifically in the areas of Notice Elimination, Taxpayer Outreach, and creating the Notice Gatekeeper position. We are also pleased that you noted our plans for redesigning, consolidating, and otherwise improving taxpayer notices and other correspondence.

You recommended several ways to improve our ability to track taxpayer feedback on our notices. I agree that we need to address this issue. The following provides our comments on the draft report's recommendations.

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RECOMMENDATION

Explore, as soon as possible, the cost effectiveness of tracking information from taxpayers who call about notices by modifying one of IRS' existing systems in the short term.

COMMENTS

You addressed three existing systems in your report: Integrated Case Processing (ICP), Quality Review Database (QRDB), and Customer Satisfaction Surveys. After analyzing both the tangible and intangible costs associated with altering these three systems to meet our needs, we believe the best choice is to use QRDB to capture the necessary information. In contrast to the other programs you mentioned, using QRDB to capture taxpayer feedback has no impact whatsoever on taxpayers or telephone assistants.

It has the added advantage of not needing any systemic changes. It simply needs quality reviewers to record one more piece of information. We will have the necessary procedures in place and will begin capturing the data by April 1, 2000. We expect to have statistically significant data by July 1, 2000.

Besides the systems you mentioned, we are piloting a Call Content Analysis Project. We are in the process of revising the Data Collection Instrument (DCI) for this project to include notice-related information. We will be able to capture as much specific data as possible on customer notice feedback. Since the project is still in the pilot phase, it may be several months before we gather enough data from it to draw any significant conclusions about customer notice feedback.

RECOMMENDATION

Explore the cost effectiveness of doing such tracking by enhancing one of the planned systems being developed as part of IRS' long term modernization effort.

COMMENTS

In your report, you mention three future systems to consider changing: Correspondence and Document on Demand Imaging, the Customer Relationship Management Core, and the Customer Account Data Engine. None of these represent the "perfect" solution to the problem of capturing taxpayer feedback about notices. The problem with using these systems is not with the system itself, but with the method of recording the data. These systems will provide excellent tools for capturing detailed account data and managing caseloads. Unfortunately, the employees who help taxpayers would need to

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identify and record the extra notice-related data. Although the average amount of time spent doing this would be less than one minute, projecting that time over millions of calls each year results in an enormous amount of time better spent helping taxpayers who call with problems.

All three of these systems, however, will be excellent tools for quality reviewers to use with QRDB to further identify the specific problems taxpayers have with our notices. We will continue to explore the possibilities they will provide as their development continues.

RECOMMENDATIONS

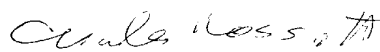
In determining the cost effectiveness of doing the tracking through both the existing and planned systems, IRS should consider the gains to customer service from improving the notices and the impacts on other IRS systems and priorities. To the extent that cost effectiveness is determined for these existing and planned systems, IRS should make the modifications and the enhancements as soon as possible.

COMMENTS

When we analyzed your recommendations to determine the best way to capture taxpayer notice feedback, we considered both tangible and intangible costs of taxpayer burden, systemic changes, and staffing. We found the most cost-effective way of capturing large amounts of data is to use a statistically valid sample. Only two of your recommendations allowed for this: QRDB and Customer Satisfaction Surveys. The QRDB was the only recommendation that had no impact on taxpayers. Using QRDB to capture the taxpayer feedback data has the added advantage of almost immediate implementation.

If you have any questions or require additional information, please let me know or a member of your staff may contact Robert C. Wilkerson, Assistant Commissioner (Customer Service), at (202) 283-5044.

Sincerely,



Charles O. Rossotti

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