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IRS' Correspondence With Taxpayers
and its
Telephone Assistance Program

Statement of
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Subcommittee on Commerce, Consumer,
and Monetary Affairs
Committee on Government Operations
House of Representatives



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IRS' CORRESPONDENCE WITH TAXPAYERS
AND ITS
TELEPHONE ASSISTANCE PROGRAM

SUMMARY OF STATEMENT
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Recent GAO reviews have identified quality problems with respect to IRS' correspondence with taxpayers and its responses to telephone inquiries.

Each year, the Adjustments/Correspondence Branches in IRS' ten service centers send letters to millions of taxpayers. Those letters either respond to the taxpayer's inquiry or inform the taxpayer of an adjustment to his or her account. GAO's review of a sample of those letters during a 63-day period at three service centers indicated that about half of the letters were incorrect, incomplete, unresponsive or unclear and that IRS personnel often did not comply with procedures, such as the sending of acknowledgment letters, that were designed to enhance taxpayer relations.

To correct those kinds of problems, IRS needs to improve its training, supervision, and quality assurance. It also needs to revise the computerized system service center employees use to compose letters so that, among other things, employees can view the entire letter after it is written. IRS should also determine whether the performance standards by which those employees are rated need to be revised and whether the opportunities for advancement need to be enhanced.

From February 9 through April 15, 1988, GAO also made 1,908 calls to 29 IRS call sites to review the accuracy and accessibility of IRS' telephone assistance. GAO received correct responses to its test questions 64 percent of the time. In the other 36 percent, GAO received incorrect answers. The types of questions that posed the most difficulty for IRS assistors were those that required probing and those that related to recent changes in the tax law.

GAO has identified several factors that influence the accuracy of assistors' responses to taxpayers' questions. Training in probing and listening skills are areas where improvements might be possible. Improvements might also be realized through improved working conditions and better reference materials. In addition, the turnover among experienced assistors and the large number of new hires each year appear to have an adverse effect on the accuracy of responses. IRS is aware of these factors and has undertaken several projects to address them.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into how effectively IRS deals with taxpayer correspondence and responds to telephone inquiries. Because IRS' correspondence and telephone answers affect millions of taxpayers and can cause taxpayers considerable frustration, we cannot think of two more important areas for IRS to direct its recent emphasis on quality improvement. My testimony today will point to problems in both areas that warrant IRS' attention.

As to correspondence:

- About one-half of the letters sent by Adjustments/Correspondence Branches in three IRS service centers during a 63-day sample period were incorrect, incomplete, unresponsive, or unclear.
- IRS personnel writing the letters often did not comply with procedures designed to enhance taxpayer relations.
- Several factors contributed to the problems we identified. Those factors involved training, supervision, quality assurance, and the use of generic responses.

As to our 1988 telephone survey:

-- We received correct responses to our 20 tax law questions, asked randomly, 64 percent of the time. In the other 36 percent, we received incorrect answers.

-- The accuracy of IRS' telephone responses might be improved through better training, improved working conditions, and better reference materials.

I would now like to discuss our findings in more detail, concentrating first on IRS' correspondence.

SERVICE CENTER CORRESPONDENCE

Each year, the Adjustments/Correspondence Branches in IRS' 10 service centers send millions of letters to taxpayers either in response to the taxpayer's inquiry or to advise the taxpayer of an IRS-initiated adjustment to his or her account. IRS' handling of that correspondence can have a critical impact on taxpayer relations.

Our testimony is based on a review of a random sample of 718 letters sent to taxpayers by tax examiners at three service centers--Fresno, Kansas City, and Philadelphia. The letters represented cases closed over 63 working days from May 4 to July 31, 1987. That period, according to IRS officials, provided a

representative mix of the type of cases handled by the Branches. Although estimates based on our sample can be generalized only to the three service centers visited, IRS officials told us that the results at those centers would be indicative of what is happening at others. Those results, which I will be summarizing today, are described in more detail in a report we are issuing to the Subcommittee.¹

Significant quality problems
exist in IRS' letters

In about half of the cases closed during our sample period, we found quality problems that we categorized as critical or noncritical. We categorized 31 percent of the cases as having critical problems because IRS

-- provided incorrect information,

-- incorrectly explained the basis for a tax or penalty,

-- did not address the question or problem raised by the taxpayer,

-- made an erroneous entry to the taxpayer's account,

¹TAX ADMINISTRATION: IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence (GAO/GGD-88-101; July 1988).

-- assessed an incorrect tax, or

-- did not correct a previous erroneous adjustment.

We categorized 16 percent of the cases as having noncritical problems if the tax examiner

-- made the correct adjustment, but provided an explanation that could confuse the taxpayer;

-- did not explain things in a way that would help the taxpayer avoid similar mistakes in the future; or

-- did not refer the case to another service center function, such as collection, when required.

Our report includes several examples of the kinds of problems we found, including the following:

-- A taxpayer questioned a bill from IRS for \$1,000 and asked for an explanation. IRS incorrectly responded that the taxpayer had made an error in reporting his medical/dental expenses. The additional tax was actually assessed because IRS had increased the taxpayer's income by \$4,100 for nonemployee compensation it believed had not been reported on

the return. In fact, the taxpayer had reported the \$4,100 as business income. Thus, IRS had actually double counted the income and had incorrectly billed the taxpayer for \$1,000.

-- IRS sent a taxpayer a refund check for \$600 rather than the \$960 claimed on the return because IRS had failed to give the taxpayer credit for a \$360 estimated tax payment. The taxpayer sent in a copy of a cancelled check for the \$360 payment and asked whether he should return the \$600 refund check so that IRS could process a check for the right amount. The taxpayer also asked whether IRS owed him interest on the \$360. Instead of telling the taxpayer that it would send him a check for the \$360 difference and that no interest would be owed if the check was processed within 45 days of the return's due date, IRS' letter told the taxpayer only that it had found the \$360 payment and credited it to the taxpayer's account.

-- A married taxpayer filed two returns for the same tax year. The husband separately filed a return to report his income and jointly filed a return with his wife to report her income. The Adjustments/Correspondence Branch combined the two returns and refigured the tax but did not correctly combine wages and charitable deductions. Because of this incorrect adjustment, IRS assessed the taxpayers about \$80 too much in additional tax.

- IRS responded to a taxpayer's inquiry by sending a letter which indicated the taxpayer still owed something, but the enclosed statement of account showed a zero balance.
- A taxpayer wrote IRS questioning the assessment of late filing and late deposit penalties. He asserted that all deposits were timely because he had until February 10 to file the employment tax return (10 days past the due date to file). IRS responded that it had received the return on February 9, and thus had assessed the taxpayer a late filing penalty and a late deposit penalty on the \$1400 which was paid with the return. IRS' response was correct but did not contain enough information to help the taxpayer understand his error in believing he had until February 10th to file. IRS should have explained that taxpayers have 10 more days to file after the due date only if they deposit all taxes when due for a quarter. In this case, the taxpayer should have paid \$1,400 by January 31, not February 9.
- A taxpayer sent in a partial payment of taxes owed. Accompanying the payment was a letter saying he would pay the balance in installments and asking for an updated statement showing the amount owed. The tax examiner sent an updated statement. However, the examiner also should have referred

the case to the collection function so it could assist the taxpayer in arranging payment.

Besides the incorrect adjustments that can result, these quality problems can lead to taxpayer frustration and require IRS to deal with follow-up correspondence that could have been avoided if IRS' initial response was appropriate. Because IRS records do not show the number of times a taxpayer wrote IRS regarding the same issue, we could not determine how many of the inappropriate responses in our sample resulted in additional taxpayer inquiries. About 22 percent of the taxpayers, however, stated in their letters that they had previous contacts with IRS regarding the same issue.

IRS' ability to respond to follow-up correspondence can be adversely affected by the fact that correspondence case files are generally destroyed once the letter to the taxpayer is mailed. If the taxpayer does not include copies of all previous correspondence, the tax examiner handling the most recent correspondence may have trouble reconstructing the case.

Noncompliance with administrative procedures

Besides quality problems, we also found that about 68 percent of the cases closed by the three service centers during our sample

period involved noncompliance with administrative procedures that were designed to enhance IRS' service to taxpayers. For example:

- About 85 percent of the cases closed by the three service centers during our sample period required acknowledgment letters advising the taxpayers that IRS had received their correspondence and when to expect a reply. No letter was sent in 49 percent of those cases.

- About 48 percent of the cases closed during our sample period required action to prevent the computer from generating additional billing notices until after IRS responded to the inquiry. In 9 percent of those cases, either no action was taken or action was taken later than required, and the taxpayers received balance due notices before IRS had answered their correspondence. The balance due notice was incorrect in some cases because the tax examiner eventually made changes to the taxpayer's account.

- About 26 percent of the cases closed during our sample period involved issues that were generated because of IRS errors and, thus, required IRS apologies. In 70 percent of those cases, IRS' letters did not include an apology.

Various factors contribute
to problems

Information developed during our review and recent IRS studies point to several factors that contribute to the kinds of problems we found.

Based on the results of our review, for example, we believe that improved training and supervisory review would help improve performance. Recent IRS studies support that conclusion. The most recent study involved a task force review of Adjustments/Correspondence Branch activities at four service centers. In its January 1988 interim report, the task force recommended, among other things, that IRS

- develop minimum training standards;
- schedule training in segments to allow new tax examiners time to gain experience with a category of work before advancing to other areas;
- certify that trainees have met defined training objectives before going to more advanced training;
- review a minimum sample of each employee's closed cases each quarter for technical accuracy;

- develop a manager's handbook to include, among other things, guidelines on how to review cases; and

- establish national guidelines that provide for a work unit small enough to allow managers to do a sufficient number of meaningful case reviews.

The results of our study underscore the importance of those recommendations and the need for management to address them expeditiously. IRS needs to go beyond those recommendations, however.

One specific problem we noted, for example, involves the use of generic responses that make it difficult for examiners to compose a letter that appropriately answers the taxpayer's inquiry. Tax examiners generally respond to taxpayers by selecting prepared letters from a catalog of about 500 such letters. These computer-generated form letters contain required and optional paragraphs and various fields to be filled in with narrative or with information, such as dates, dollar amounts, and form numbers.

When the tax examiner chooses a particular paragraph or paragraphs, the terminal screen only shows the letter or number code for the selected paragraph(s) plus any specific data or

narrative added to the paragraph by the tax examiner. In order to visualize the entire letter, the tax examiner must look at the unfilled-in hard copy of the form in the catalog and look at the computer screen for the fill-in data. Because the completed letter is printed in another location, the tax examiner does not see it before it is mailed.

Because of the large number of potential letters and paragraphs, tax examiners tend to become familiar with only a small number of letters and use them repeatedly. Reliance on a few letters makes it more difficult for an examiner to prepare correspondence that is responsive to the taxpayer.

The problems caused by generic responses are compounded when a taxpayer's letter includes more than one inquiry. The more information requested, the less appropriate the generic response. Thus the tax examiner has to compose more narrative to add to the computer-generated paragraphs.

The quality of service center correspondence might also improve if the quality assurance function provided management with more useful information. The Quality Assurance Branch reviews the quality of correspondence and provides data for evaluating tax examiners. The error rates it reported to management during our sample period were much lower than the rates we identified. While we were finding critical errors in 31 percent of our cases,

the Quality Assurance Branches at the three service centers were reporting average error rates of 6, 10, and 20 percent.

One explanation for the difference in rates is that our sample included only those cases involving correspondence sent to taxpayers whereas Quality Assurance's sample includes other Adjustments/Correspondence Branch activities. In that regard, some Adjustments/Correspondence Branch cases are closed without the need to correspond with the taxpayer. The Quality Assurance Branch does not compute separate error rates for cases involving correspondence to taxpayers. Considering the effect of poor quality correspondence on taxpayer relations and service center workload, we believe that management needs specific information on the quality of cases involving correspondence. Another explanation for the difference in error rates is that the Quality Assurance Branch is not identifying all errors. Of our 718 sample cases, the Branch had reviewed 62. We identified critical errors in 17 of those 62 cases; Quality Assurance identified none.

We also believe that IRS needs to assess the Adjustments/Correspondence Branch's tax examiner position to determine whether our findings and those of internal IRS studies warrant revision of the qualifying requirements for that position, the performance standards by which examiners are rated, and/or the opportunities for advancement.

Generally, examiners are hired as grades 4 or 5, with a starting salary of about \$13-15,000. Among other things, examiners are required to have knowledge of (1) a broad range of tax regulations pertinent to individual or business tax returns; (2) IRS' computerized master file system and the effects of transactions on taxpayers' accounts; and (3) other agency procedures related to tax processing, such as those of the Social Security Administration. The minimum requirements to qualify as a grade 4, for example, are generally 2 years of college or 2 years of clerical or office work.

Examiners are evaluated against both quantity and quality standards that are set by Adjustments/Correspondence Branch management based on historical data and input from Quality Assurance. Most examiners have less than the 3 years of experience IRS considers necessary to be fully qualified. According to some Branch managers, it is difficult to retain examiners because new hires find that the job is more difficult than they anticipated and opportunities for advancement beyond grade 7 are limited.

In commenting on a draft of our report, which contained several recommendations directed at the contributory factors discussed above, IRS said that:

- A new system is being developed to help examiners compose letters, which will permit examiners to view the letter once it is complete and will be sufficiently flexible to enable them to respond to multiple inquiries from a taxpayer. IRS plans to implement the system in early 1990.

- A program providing separate quality information on correspondence cases will be operational in January 1989.

- The qualifying requirements for Adjustments/Correspondence Branch tax examiners will be reviewed, new quantity and quality standards will be developed, acceptable performance levels will be established, and the current grade structure will be reviewed to determine if a tax examiner's career potential can be improved.

- A senior manager has been appointed to coordinate implementation of recommendations in the task force's January 1988 report. An implementation plan is scheduled to be developed by the end of 1988.

Because it is critical that IRS quickly improve the quality of its service center correspondence, we will be monitoring IRS' progress in implementing those corrective actions.

I would now like to discuss IRS' telephone assistance.

TELEPHONE ASSISTANCE

We have completed our review of the accuracy and accessibility of IRS' telephone assistance program. From February 9, 1988, through April 15, 1988, we made 1,908 calls to 29 IRS call sites. We were able to reach an assistor on the first attempt 76 percent of the time and within five tries 93 percent of the time. The weighted results of the 1,733 calls for which IRS answered our 20 tax law questions show that IRS responded correctly 64 percent of the time and incorrectly 36 percent of the time.

The types of questions that posed the greatest difficulty for IRS assistors were those that required them to probe for pertinent facts before answering the question and those that related to recent changes in the tax law. Most of our questions fell into those categories. For questions which did not require probing and those relating to prior tax law, assistors provided accurate responses 78 percent and 72 percent of the time, respectively. In terms of subject matter, questions dealing with capital gains, child care credits, and scholarships were most likely to receive incorrect responses.

In interpreting the 64 percent overall accuracy rate for this year and comparing it to last year's 79 percent accuracy rate, it is important to keep two points in mind. First, we and IRS agree

that the tax law questions we asked and the answers we sought were reasonable and that assistors should have been able to answer all our questions correctly. However, as implicit in any sample set of questions, our questions were not necessarily representative of the full range of tax law questions posed by taxpayers. Accordingly, while our results are projectable in terms of the universe of answers to taxpayer questions such as ours, our results do not necessarily reflect the overall accuracy of assistors' answers to all the tax law questions they actually received from taxpayers. Secondly, because of substantial differences in the pool of survey questions used this year necessitated by tax reform changes, a strict statistical comparison between last year's results and this year's cannot be made.

Given the complexity of the tax code and turnover that has generally occurred among IRS' telephone assistors, it may be unreasonable to expect 100 percent accuracy in assistors' responses to all tax law questions. Nevertheless, we believe that everyone would agree that assistors and IRS management should continuously strive to achieve that goal. We have been meeting regularly with IRS to discuss whether and how the measurement of assistor accuracy could be improved in a test call environment. We are also discussing alternative roles that GAO and IRS could play in testing the accuracy of responses by IRS' telephone assistors during the 1989 tax filing season. Our

future role needs to be resolved with this Subcommittee and the House Ways and Means' Subcommittee on Oversight, the two requesters of our six telephone surveys since 1978. We believe it would be appropriate for IRS, rather than GAO, to be the primary monitor of the quality of IRS' service to taxpayers.

Mr. Chairman, you asked whether we have specific recommendations for improving the accuracy of IRS' responses to taxpayers' questions. We believe several factors influence the accuracy of those responses, including

- turnover among experienced taxpayer assistors and the large number of new assistors hired each year,
- the skill with which assistors probe and listen to taxpayers to assure that they have ascertained all the pertinent facts before giving their responses,
- the quality of assistors' reference materials and their usefulness for providing quick responses, and
- the physical environment in which assistors work.

IRS has projects underway to study what improvements can be made in several of these areas. For example, IRS plans to test its Automated Taxpayer Service System later this year. This system

will provide assistors with computer-generated access to tax law information. We have discussed with IRS the value of IRS exploring whether probes could be built into the system to remind assistors before they respond to taxpayers' questions that certain information needs to be ascertained in order to correctly respond to those questions.

IRS also has projects underway to study (1) the recruitment and retention of taxpayer service personnel including a review of the skills and knowledge they need to possess and (2) an analysis of taxpayer service training and the barriers to providing quality service. Both of those projects have only recently begun, and it is too early to report on their progress. However, if IRS were primarily responsible for monitoring its own telephone accuracy in the future, we would be able to direct more of our resources to evaluating its efforts to achieve higher accuracy.

Mr. Chairman, you also asked for our views on IRS' decision to discard a number of questions during its own test call survey. We reviewed the 8 questions that IRS removed from its original sample of 42 questions during the week of January 18th and discussed with IRS the reasons for removing each question. On the basis of our review and discussions, we believe that IRS had sufficient reason to remove the questions.

We do not believe the fact that assistors were having difficulty providing accurate answers to these questions was what prompted their removal from IRS' sample. Rather, IRS removed the questions because of problems with the design of the questions or the required answers. In general, IRS found, and we agree, that the questions were not well defined, the required answer was not always the only answer to the question posed, or the required answer included more information than that needed to correctly answer the question posed. According to IRS, these problems occurred because the questions were not adequately tested before IRS' test call system was implemented. Based on our experience in making test calls, pretesting is extremely important because it enables you to identify the modifications needed to ensure that the test call methodology is administered uniformly and produces unbiased results.

CONCLUSIONS

In conclusion, Mr. Chairman, IRS needs to do all it can as quickly as it can to improve the quality of its correspondence with taxpayers and its responses to telephone inquiries. IRS recognizes the need to improve and has taken steps in that direction. Because we believe corrective action is vital, we intend to monitor IRS' progress.

That concludes my prepared statement. We will be pleased to respond to any questions.