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

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TAX ADMINISTRATION

IRS' 1990 Filing Season Performance Continued Recent Positive Trends

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The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In response to your request, this report discusses the Internal Revenue Service's (IRS) performance during the 1990 tax return filing season. Specifically, we assessed the accuracy and accessibility of IRS' toll-free telephone assistance program, the availability of tax materials at IRS' distribution centers and walk-in offices, and IRS' processing of returns and related refunds.

As arranged with the Subcommittee, we are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties.

The major contributors to this report are listed in appendix VI. Please contact me on 275-6407 if you or your staff have any questions concerning the report.

Sincerely yours,

Jennie S. Stathis
Director, Tax Policy
and Administration Issues

Executive Summary

Purpose

Each year millions of taxpayers file individual income tax returns with the Internal Revenue Service (IRS). The Subcommittee on Oversight of the House Committee on Ways and Means asked GAO to review IRS' performance in processing returns and related refunds during the 1990 tax return filing season. The Subcommittee also asked GAO to assess IRS' performance in helping taxpayers file their returns by (1) supplying them with tax forms, instructions, and publications; and (2) providing toll-free telephone assistance to answer their tax law questions.

Background

Over the last several years, IRS' ability to distribute tax materials, answer tax law questions, and process tax returns has received considerable congressional and media attention. Since 1985, when IRS experienced significant problems processing returns and issuing refunds, its filing season performance has improved.

In recent years, GAO has reported on two issues needing further IRS consideration—the availability of tax materials and the quality of toll-free telephone assistance. Prior to the 1990 filing season, IRS took several steps to improve the availability of materials. IRS management also set a high priority on improving the accuracy of answers given to taxpayers over the telephone.

IRS' filing season work load is formidable. For example, IRS statistics for 1990 show that it

- processed 11 million mail and phone orders for tax materials through April 28, 1990;
- received 51 million calls from taxpayers seeking answers to tax law questions, including 33 million calls that did not reach IRS because of busy signals, through April 27, 1990; and
- received 111 million tax returns, including about 5 million returns filed with 4-month extensions, through August 31, 1990.

Results in Brief

IRS generally enjoyed a successful 1990 filing season in all three areas addressed by GAO. First, IRS offices visited by GAO usually had tax materials on hand, and, in most instances, IRS accurately filled GAO's phone and mail orders for tax materials. Second, IRS' and GAO's tests showed that the accuracy rate for answering taxpayer questions about the tax law improved substantially over 1989. Finally, returns processing improved over 1989, continuing a strong showing dating back to 1988.

Although the 1990 filing season went well for IRS overall, there were some minor trouble spots. Delivery time for some of the tax materials GAO ordered by mail took longer than IRS tells taxpayers to expect; and more taxpayers received busy signals in 1990 than in 1989 when they telephoned to order materials or ask tax law questions. Any improvement in those areas in 1991 will depend, in large part, on the availability of additional staff.

IRS also needs to develop a statistically valid survey of its ability to fill taxpayers' phone and mail orders for tax materials. The test it made in 1990 was methodologically flawed, preventing it from setting goals for 1991 based on its 1990 performance.

Principal Findings

Walk-In Sites Had Tax Materials on Hand and Distribution Centers Accurately Filled Most of GAO's Orders

Taxpayers can obtain tax materials by visiting 1 of over 600 IRS walk-in sites or by placing mail or phone orders with 1 of 3 IRS forms distribution centers. Between late January 1990 and mid-April 1990, GAO visited 25 walk-in sites in 7 states and placed 187 mail and phone orders for 743 items from the distribution centers. All of the sites had on hand at least 90 percent of the items they were required to stock, and distribution centers generally filled GAO's orders accurately. When an item was temporarily out of stock, the distribution center usually included an explanation to that effect with the order and shipped the item later when it became available. (See pp. 13 to 16.)

The only difficulty GAO encountered was that about half of the mail-ordered items took longer than the 14 days IRS tells taxpayers to expect. IRS statistics also showed more taxpayers received busy signals in 1990 than in 1989 when trying to order items by phone. In 1991, IRS plans to rearrange distribution center work schedules to fill mail orders faster, and it expects to devote more resources to answering taxpayer phone calls. (See pp. 16 to 18.)

IRS' Test of Its Order-Filling Performance Was Not Valid

Over a 14-week test period ending March 23, 1990, IRS used volunteers from 60 IRS district offices to place 5,880 mail and phone orders for tax materials from its distribution centers. It planned to use the results as a yardstick against which to measure performance in 1991. Data omissions and samples that did not statistically represent taxpayer orders invalidated the results and will prevent IRS from setting goals for 1991 based on its 1990 performance. IRS plans to do a more structured and statistically valid survey in 1991. One of the key features, GAO believes, is development of a survey that allows year-to-year comparisons of performance. (See pp. 18 and 19.)

IRS Telephone Accuracy Rates Improved in 1990 but Accessibility Declined

Reacting to past GAO, congressional, and media criticism about the accuracy of the responses provided by IRS assistors to questions designed to test their tax law knowledge, IRS management placed a high priority on improving accuracy in 1990. IRS' test results show that the emphasis paid off. IRS' results, which GAO determined to be a reliable measure of the assistors' performance, showed that accuracy rates improved from 63 percent in 1989 to 77 percent in 1990. GAO's own independent test showed a comparable improvement. IRS' accuracy goal for the 1991 filing season is 85 percent. (See pp. 21 to 24.)

While taxpayers had a better chance of getting accurate answers to their questions in 1990 than in 1989, they had more difficulty getting through to IRS to ask those questions. During the 1990 filing season, IRS answered about 34 percent of the calls it received. Those who did not reach IRS received busy signals or, if they reached IRS, were placed on hold and hung up before IRS took their calls. In 1989, IRS answered about 58 percent of the incoming calls. IRS attributed the reduced accessibility to funding cutbacks and higher-than-expected demand for toll-free service. (See pp. 24 to 26.)

Returns Processing Improved in 1990

IRS' statistics indicate that the processing of tax returns in 1990 went well, improving on what had already been relatively successful processing years in 1988 and 1989. Compared to 1989, IRS processed returns faster, paid less interest on delayed refunds, and needed to correct fewer errors on returns. Service center inventories of things "gone wrong" or needing special attention generally remained below prior years' levels throughout the 1990 filing season. As a result, fewer taxpayers experienced delays in receiving their refunds or should have needed to contact IRS about errors on their returns. (See pp. 27 to 35.)

Despite the trend of continually improved performance, taxpayers and IRS staff are still making many of the same types of errors they have made in past years in preparing and processing returns. Many taxpayers, for example, continue to make errors in computing the earned income tax credit and figuring a refund. In an attempt to deal with these continuing errors, IRS has assigned the 10 most persistent problem areas to individual offices for additional analysis. IRS hopes to find and implement solutions in time for the 1991 filing season. (See pp. 31 to 33.)

Recommendations

Because of IRS' improvements in its toll-free telephone accuracy rates and in processing tax returns, GAO is not making any recommendations in these areas.

To provide a measure of quality in supplying taxpayers with tax materials, GAO recommends that IRS develop and implement a statistically valid survey of its ability to fill phone and mail orders. The survey should (1) correct the problems that GAO identified with IRS' 1990 test; (2) include measures that are consistent from year to year, thus allowing measurement of performance over time; and (3) provide the basis for establishing annual goals.

Agency Comments

IRS agreed with GAO's recommendation and said it had developed a quality testing plan for 1991. As of November 21, 1990, details of IRS' testing methodology had not been finalized. Once implemented, IRS expects to use the test results to measure each distribution center's performance on a year-to-year basis.

GAO reviewed a preliminary copy of IRS' plan and discussed the contents with IRS staff. On the basis of that review and discussion, GAO believes that the plan lays a basic framework that, if properly implemented, should effectively measure IRS' ability to fill taxpayers' orders of tax materials. (See p. 20.)

Contents

Tables

Figures

Abbreviations

IRS	Internal Revenue Service
ITCSS	Integrated Test Call Survey System

Introduction

This report responds to a request from the Chairman of the Subcommittee on Oversight of the House Committee on Ways and Means that we evaluate IRS' performance during the 1990 tax return filing season.[1] The Subcommittee requested that we report on the availability of tax materials; the availability and quality of IRS' telephone tax assistance; and IRS' ability to process tax returns and manage various workloads, such as inventories of taxpayer correspondence, at its 10 service centers. This report updates and supplements the preliminary results of our work, which we reported in testimony before the Subcommittee on March 22, 1990.[2] In addition, we provided the Subcommittee with a separate report on IRS' deposits of tax payments received at the end of the filing season.[3]

Background

We have evaluated IRS' filing season performance on a number of occasions over the last 5 years. We testified in December 1985, for example, about various significant problems that IRS had experienced in processing returns and issuing refunds that year.[4] Since 1985, IRS' filing season performance has improved. After the 1988 filing season, for example, we reported that IRS generally did an effective job of processing tax returns, issuing refunds, and managing its various service center inventories.[5] While recognizing that improved performance, we reported on the need for IRS to give continuing attention to two specific filing season issues—the availability of tax materials and the quality of toll-free telephone assistance.[6]

IRS officials in the forms distribution, taxpayer services, and returns processing areas expressed confidence before the 1990 filing season that

[1]The 1990 tax return filing season for individual taxpayers filing tax year 1989 returns ran from January 1, 1990, through April 16, 1990. (Some taxpayers filed returns after April 16, however, after receiving 4-month extensions.)

[2]Tax Administration: IRS' Budget Request for Fiscal Year 1991 and Status of the 1990 Tax Return Filing Season (GAO/T-GGD-90-26, March 22, 1990).

[3]Tax Administration: IRS Needs to Assess Options to Make Faster Deposits of Large Tax Payments (GAO/GGD-90-120, Aug. 31, 1990).

[4]Testimony on Service Center Operations before the Subcommittee on Oversight, House Committee on Ways and Means (Dec. 16, 1985).

[5]Tax Administration: Effective Implementation of the Tax Reform Act Led to Uneventful 1988 Filing Season (GAO/GGD-89-2, Nov. 14, 1988).

[6]See, for example, Tax Administration: IRS Needs to Improve Distribution of Tax Materials to the Public (GAO/GGD-90-34, Jan. 10, 1990); and Tax Administration: Monitoring the Accuracy and Administration of IRS' 1989 Test Call Survey (GAO/GGD-90-37, Jan. 4, 1990).

they had effectively prepared for the upcoming season. They noted, for example, that

- annual business plans had been developed to provide IRS managers with program direction and evaluation measures;
- readiness checks had been performed at IRS service centers to determine whether (1) sufficient staff were hired and properly trained, (2) computer programs were modified to meet 1990 filing requirements, (3) procedural manuals were updated, and (4) equipment was in place and adequate to meet expected demands;
- teleconferences had been held with service center managers to discuss changes from the 1989 filing season and to reinforce prior guidance on 1990 filing season objectives; and
- additional guidance had been developed for IRS field staff who answer toll-free telephones and supply taxpayers with tax materials.

Several IRS officials, including the Commissioner, also mentioned the benefit of having to cope with fewer last-minute tax law changes. Such changes, said the officials, require late changes to tax forms and instructions and entail additional training for IRS staff, particularly when the law changes have effective dates with little lead time for accommodating the changes.

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether forms, publications, and instructions were available to the public and whether IRS had implemented the recommendations in our January 1990 report on the distribution of tax materials; (2) how effectively IRS met taxpayer demand for telephone assistance; and (3) how good a job IRS did processing returns and keeping service center inventories at manageable levels.

Measuring the Availability of Tax Materials

To determine whether tax forms, instructions, and publications were available to the public and whether IRS had implemented our recommendations, we (1) interviewed National Office managers in IRS' Publishing Services Branch and managers in the Richmond, Virginia; Bloomington, Illinois; and Sacramento, California, forms distribution centers; (2) obtained and analyzed management directives and follow-up reports issued in response to our recommendations; (3) checked on the availability of tax materials at 25 of the over 600 IRS walk-in sites that taxpayers can visit to obtain forms, instructions, and publications; and (4) placed 187 mail and phone orders for 743 tax items.

The 25 walk-in sites we visited were judgmentally selected from sites within a 150-mile radius of our offices in Cincinnati, Ohio; Philadelphia, Pennsylvania; and San Francisco, California. We visited the sites from late January through mid-April. We designated one site in each location to be visited five times during that period so that we could identify changes in the availability of tax materials as the filing season progressed.

During each of the walk-in site visits, we checked on the availability of the 82 tax items that sites were required to stock. IRS required sites to stock the 82 items because it determined that those were the items taxpayers were likely to request most often. We also interviewed personnel with oversight responsibilities at each site to determine their level of training in inventory management and whether they had experienced any problems with the distribution process.

To assess IRS' ability to fill telephone and mail orders for tax materials, we made 91 randomly generated telephone orders and 96 randomly generated mail orders to IRS' 3 distribution centers. The phone and mail orders were about equally split into two categories—commonly ordered items and less commonly ordered items. Each order was for four items, with all items of an order belonging to the same category. We drew our sample of commonly ordered items from the list of 82 items that IRS required each of its walk-in sites to stock. We drew our sample of less commonly ordered items from the remaining 325 items that IRS makes available to walk-in sites or tax practitioners. The orders were placed between late January and mid-April by our staff in Cincinnati, Philadelphia, San Francisco, and Washington, D.C. For each order, we recorded (1) whether we received the item, (2) when we received the item, and (3) whether IRS provided an explanation when we did not receive an item.

Our orders were not intended to represent the actual distribution of telephone and mail orders IRS receives. Accordingly, our results indicate the centers' performance in responding to orders like ours, not their overall performance in filling taxpayers' orders during the 1990 filing season.

Monitoring IRS' Toll-Free Telephone Assistance Program

To determine IRS' ability to meet taxpayer demand for phone assistance, we (1) reviewed IRS' management information reports; (2) spoke with National Office managers in IRS' Taxpayer Service Division and officials at IRS toll-free call sites in Baltimore, Maryland; Cincinnati; Indianapolis, Indiana; Newark, New Jersey; Oakland, California; and Los Angeles, California; (3) evaluated the validity of results generated by IRS' Integrated Test Call Survey System (ITCSS)—the mechanism IRS uses to measure the accuracy of assistor responses to tax law questions; and (4) independently tested the accessibility of IRS telephone assistors and the accuracy of their responses.

To evaluate the validity of the ITCSS test results, we used a contractor to independently score 704 randomly selected ITCSS test calls made between March 5 and April 16, 1990. We statistically weighted our scores and compared the accuracy of IRS' answers to those calls with IRS' weighted scores for the same calls. We jointly developed with IRS the scoring criteria used by the contractor. Those criteria established specific acceptable combinations of required assistor probes for factual information and/or responses that were necessary for the assistors' answers to be considered correct. The 704 calls were a statistically valid sample size that allowed us to report our results with 95-percent confidence that our sampling error was no greater than plus or minus 2.9 percent.

For our independent test, we selected 20 tax law questions IRS used in its 1989 test and called the 29 IRS toll-free telephone sites located in the continental United States. Posing as taxpayers, we recorded information on completed calls, busy signals, time on hold, and accuracy of assistors' responses. We then projected this information to the 29 IRS telephone sites at the 95 percent confidence level with a maximum sampling error of plus or minus 3 percent. Our calls were made between February 5 and March 16, 1990.

Monitoring IRS' Returns Processing Performance

To monitor returns processing performance, we analyzed IRS' management information reports and did work at the Cincinnati, Philadelphia, and Fresno, California, service centers. Our work at the service centers included (1) discussing the progress of the filing season with service center staff; (2) attending weekly service center meetings where managers discussed how things were going and any problems they were encountering; (3) gathering data on returns processing activities; and (4) monitoring whether the centers kept various workloads, such as inventories of taxpayer correspondence and returns with errors needing correction, at manageable levels. We also reviewed reports generated by IRS' Management Information System for Top Level Executives and interviewed IRS National Office officials in charge of returns processing.

We did our work from December 1989 through July 1990 in accordance with generally accepted government auditing standards. IRS provided written comments on a draft of this report. Those comments are presented and evaluated on page 20 and are included in appendix V.

Tax Materials Generally Available in 1990, but IRS Needs to Develop a Better Measure of Performance

Taxpayers need the proper tax forms, instructions, and publications in order to file their tax returns promptly and correctly. IRS is responsible for providing taxpayers with tax materials and has over 600 individual items available for distribution depending on the needs of the taxpayers. After reviewing IRS' distribution of tax materials during the 1989 filing season, we recommended several ways IRS could improve its distribution system.[1] The steps IRS took in response to those recommendations seem to have worked. In 1990, tax materials were usually available at the IRS walk-in offices we visited, and IRS generally did a good job filling our mail and phone orders for tax materials.

Despite the generally good performance, there were some problems. In many instances, delivery of items we ordered by mail took longer than the 14 days IRS tells people to expect; and IRS statistics showed that more taxpayers received busy signals in 1990 when they tried to order materials by phone than they did in 1989. In addition, IRS needs to develop a more effective test of its ability to distribute tax materials. We found a number of methodological weaknesses with the tests IRS performed in 1990.

Walk-In Sites Had Tax Materials on Hand in 1990

Most taxpayers receive an annual package of tax materials through the mail. Taxpayers who want additional material or who do not receive a tax package can obtain tax materials (1) at over 600 IRS walk-in sites; (2) through phone and mail orders placed with 1 of 3 IRS distribution centers; or (3) at about 64,000 banks, post offices, and libraries.

Our tests during the 1989 filing season showed that some tax materials were missing at most of the 60 walk-in sites we visited and that sites visited early in the filing season were more likely to be missing more items than sites visited later. We noted that materials were not available because (1) IRS distribution centers, which supply tax materials to walk-in sites, did not always ship materials promptly; (2) items the sites were required to stock were not always included in initial shipments to the sites; and (3) staff at the sites did not always reorder materials in time to avoid running out of an item. IRS officials attributed the late availability of some items to (1) legislation that was enacted close to the start of the filing season and (2) the lengthy process for developing and modifying tax materials and obtaining the necessary approvals before an item can be printed.

[1] Tax Administration: IRS Needs to Improve Distribution of Tax Materials to the Public (GAO/GGD-90-34, Jan. 10, 1990).

In response to our recommendations, for the 1990 filing season IRS

- established procedures to make faster initial shipments to the sites after the distribution centers receive the items,
- automatically included in the initial shipments the 82 items sites were required to stock, and
- revised training materials given to walk-in site staff and increased supervisory monitoring of inventory levels at the sites.

These changes appeared to have had the desired effect. Our spot checks at IRS walk-in sites during the 1990 filing season indicated that forms and publications were generally available. Between January 22, 1990, and April 13, 1990, we visited 25 walk-in sites in 7 states to check on the availability of 82 forms and publications that all sites were required to stock. One site was missing 8 items, 2 sites were missing 6 items, and the other 22 sites were missing 5 items or less. Last year during the same general time period, 19 of the 60 sites we visited were missing 8 or more of the 79 items they were required to stock.[2]

We also found that the sites we visited early in the filing season had about as many of the required items on hand as they did later in the filing season. The 9 sites we visited before February 14, 1990, had about 95 percent of the required items in stock—not that much different from the 98 percent availability we recorded at the 16 sites visited after February 14. Last year, the sites we visited before February 12, 1989, had about 85 percent of the required items on hand, while the sites we visited after that time had about 96 percent on hand.

As a further check on the availability of tax materials as the filing season progressed, we visited two sites five times each and one site four times during the filing season. Of the 246 items the 3 sites were required to stock (82 at each site), they had 230 (or 93.5 percent) on hand during our first visit in late January and 100 percent on hand by mid-March.

The slightly greater number of missing items early in the filing season can be attributed primarily to Publication 553, dealing with 1989 tax law changes, and Publication 575, dealing with pension and annuity income, which were not available to any walk-in site until mid or late February. The delay in the availability of Publication 553 was due, in part, to passage of the Revenue Reconciliation Act of 1989, which was

[2]Because we did not visit the same sites in 1989 and 1990, our 1989 results are not directly comparable with our 1990 results.

enacted late in 1989. IRS officials in the Publishing Services Branch told us that both publications were also delayed because staff assigned to update the publications had responsibility for working on the Taxpayer Service Expert Assistant System, a system being tested in Boston, Massachusetts, to improve the accuracy of answers to taxpayers' tax law questions.

Distribution Centers Generally Did a Good Job Filling Our Mail and Phone Orders in 1990

During the 1989 filing season, we also assessed the ability of IRS' three distribution centers to fill phone and mail orders for tax materials. We received 58 percent of the mail-ordered items and 84 percent of our phone-ordered items within the 10-workday time frame IRS told taxpayers to expect. Overall, we received about 80 percent of the items we had ordered by May 31, 1989—about 7 weeks after our last order. Although IRS procedures require that taxpayers be sent explanations whenever items are missing from their orders, we received explanations for only about 39 percent of the items missing from our orders.

IRS officials gave three reasons for the problems we experienced last year: processing errors at the distribution centers, orders lost in the mail or at the centers, and the additional handling required to fill our orders. IRS officials said that our orders increased the risk of processing errors because they were larger than the typical order received by the distribution center (last year each of our orders was for 10 items versus the typical order of 1 or 2 items) and because we requested some items that were not frequently requested (we selected items from an IRS listing of all items that were available to the public). Nonetheless, IRS officials said that we should have received the ordered items or explanations of why the items were missing.

IRS made several changes to improve distribution center performance during the 1990 filing season. For example, distribution centers increased the number of quality assurance reviews they performed on phone and mail orders. IRS' National Office also redesigned the nationwide test it made in 1989 to better assess the centers' ability to fill orders for less frequently requested items. In addition, an automated order-taking system that had been in use at one center in 1989 was expanded to all three centers for the 1990 filing season.

To test distribution center performance in 1990, we placed 187 mail and phone orders for 743 items, or about 4 items per order, between January 22, 1990, and April 14, 1990. The orders were split into 4 groups: phone orders of items randomly selected from IRS' list of 82 commonly ordered items, phone orders of items randomly selected from a list of 325 less commonly ordered items, and 2 groups of mail orders randomly selected from the same 2 lists. Because our 1990 test was structured differently from our 1989 test, the results are not comparable. Our assessment of the distribution centers' performance during the 1990 filing season, however, indicated that the changes IRS implemented for 1990 had a positive effect.

IRS Generally Did a Good Job Explaining Missing Items

IRS generally did a good job of filling our orders and in providing an explanation when an item was missing from a shipment. As shown in table 2.1, as of May 15, 1990, we had received at least 87 percent of the items in each of our 4 test groups and, in most instances, had received an explanation when an item was missing from an order.

Table 2.1: Analysis of Receipts From Phone and Mail Orders as of May 15, 1990

Type of order	Type of item ordered	Number of items ordered[a]	Number of items received	Percent received	Percent of missing items with an explanation[b]
phone	common	176	175	99	75
phone	less common	186	162	87	79
mail	common	191	180	94	50
mail	less common	190	168	88	82

[a]The number of items ordered differs by type of order because we dropped 25 items from our sample results. The dropped items included orders that were not placed at predesignated times and items that may have been misordered.

[b]The percentage of missing items with an explanation would increase if three orders that were lost in the mail or at the centers were excluded from the analysis. Excluding these orders would increase the percentage for less commonly ordered phone items from 79 to 84 percent and the percentage for commonly ordered mail items from 50 to 79 percent.

Source: Items received as of May 15, 1990, for GAO test orders placed between January 22, 1990, and April 14, 1990.

Phone-Ordered Items Were Received Timely, but Many Mail-Ordered Items Were Received Late

We also assessed the speed with which distribution centers responded to our orders. During the 1990 filing season, IRS told taxpayers to expect delivery of their orders within 14 calendar days.[3] The median delivery time for our orders ranged from 8 calendar days for phone orders of common items to 16 calendar days for mail orders of less common items. Table 2.2 shows the median delivery times for our test orders, the ranges of delivery times, and the percent of items received within 14 calendar days of the date of our request.

[3]IRS used 10 workdays as its delivery standard in 1989, which is generally equivalent to the 14 calendar day standard it used in 1990.

Table 2.2: Delivery Times for Phone and Mail-Ordered Items

Type of order	Type of item ordered	Median delivery time	Range of delivery times	Percent of items received within 14 days
phone	common	8 days	5 to 32 days	85
phone	less common	9 days	2 to 46 days	81
mail	common	14 days	5 to 61 days	51
mail	less common	16 days	4 to 44 days	43

Source: Results of GAO test orders placed between January 22, 1990, and April 14, 1990.

Officials in IRS' Publishing Services Branch said that not too much could be done to speed up the delivery time of mail orders. If everything goes smoothly, they said, it takes about 3 days to receive a mail order, 3 days for the distribution center to process the order, and 4 or 5 days to ship an order to the taxpayer. (Shipping time takes 4 or 5 days because IRS takes advantage of special fourth class mail rates to reduce its postage costs.) The officials said that weekends and unforeseen delays can easily push delivery times to the 14 to 16 days shown by our sample. IRS hopes to purchase optical scanning equipment in the next several years that will reduce the time it takes to sort taxpayer mail orders at the distribution centers. In 1991, the distribution centers plan to give priority to processing mail orders over phone orders, which Publishing Services officials believe could shorten delivery time for mail orders by about 1 day.

Distribution Centers Less Accessible by Phone in 1990

Although taxpayers may have received timely delivery of phone orders in 1990, they probably needed to make several calls to place their orders. IRS provides a toll-free telephone number for taxpayers who want to order tax materials by phone. IRS statistics for the 1990 filing season show that distribution centers answered about 44 percent of the calls on the caller's first attempt, compared to 67 percent for the 1989 filing season. Callers who did not receive answers received busy signals or were placed on hold and hung up before IRS took their orders.

The test phone orders we made in 1990 also showed that taxpayers were unlikely to reach a distribution center on their first attempt. It took an average of 2.4 attempts to successfully place our phone orders. We did not measure IRS' accessibility during our 1989 tests.

IRS officials in the Publishing Services Branch explained that budget constraints and increased phone demand prevented the distribution centers from matching last year's level of service. IRS statistics show that demand increased by about 4 percent over 1989, while distribution center staffing declined by about 3 percent. The officials expect distribution centers to receive additional staffing in 1991 that should improve access to toll-free lines.

IRS' Test of Distribution Center Performance Was Inconclusive

An effective performance measurement system is a tool for determining whether an organization is delivering quality service and for pinpointing areas that need improvement. To measure the effectiveness of distribution center performance, IRS' Publishing Services Branch used volunteers from 60 IRS district offices to place 5,880 mail and phone orders over a 14-week period ending March 23, 1990. The number of items ordered varied from 1 to 10 items per order. As its measure of quality, IRS recorded whether critical errors had been made in processing the order. It defined critical errors as receiving the wrong item, not receiving an ordered item, not receiving an explanation when an item was missing from an order, and receiving the wrong quantity of an item. IRS also measured the delivery time for each order.

IRS planned to use the results of its 1990 assessment as a yardstick against which to measure its performance in 1991. We identified three factors that, in our opinion, preclude the use of 1990 results as a reliable baseline.

First, IRS counted missing items only on those orders for which it received some of the items. Consequently, it only reported information for 3,383, or 58 percent, of the 5,880 planned orders. Thus, IRS does not know whether the absence of information on a particular order is due to (1) a volunteer not placing the order, (2) a volunteer failing to report the results, or (3) the order being lost in the mail or at the distribution center. Our results, for example, showed 3 of our 187 orders were lost in the mail or at the center. Omitting information about orders for which nothing was received would tend to overstate accuracy rates. Not accounting for about 40 percent of the sample orders also casts doubt on the validity of the results.

Second, IRS did not record an item as delivered if it subsequently received an item that was not included in the initial shipment of items from a distribution center. Normally, when an item is temporarily out of stock, the center back orders it, advises the taxpayer of the back order, and sends the item when it becomes available. About 15 percent of the items in our sample arrived in this fashion. By omitting subsequently delivered items from its analysis, IRS understated its accuracy rates and its delivery times.

Third, the quantity and type of items ordered were judgmentally selected and were not statistically representative of typical taxpayer orders. As a result, IRS' ability to use the study as a representative measure of performance is severely limited.

IRS officials in the Publishing Services Branch agreed that they would have liked tighter controls over the test results. They said that one analyst had responsibility for the study, making it difficult to monitor whether field office volunteers placed the orders and forwarded the results for analysis. They are planning to do a more structured and statistically valid survey for the 1991 filing season. One of the key features, we believe, would be development of a survey that allows year-to-year comparisons of performance.

Conclusions

Our spot checks of the availability of tax materials indicated that the changes IRS made to its forms distribution process in 1990 were for the better and that taxpayers were probably able to obtain most of the forms, instructions, and publications they needed throughout the 1990 filing season. There were still a few problems, however. Some of the items we ordered by mail were received late, and IRS statistics show that more taxpayers got busy signals when they tried to order materials by phone in 1990 than they did in 1989. IRS plans to take steps to alleviate those problems in 1991. Those plans hinge, in large part, on the availability of additional staff—an occurrence that is not that certain given the country's current budgetary climate.

One area IRS could improve is its measurement of the ability of distribution centers to fill phone and mail orders. The test IRS made in 1990 had a number of methodological flaws that prevented it from being an effective measure of performance. A statistically valid and methodologically sound test would provide the basis for setting goals in IRS' annual business plan and allow year-to-year comparisons of performance, which could, in turn, provide a basis for more efficient use of available resources.

Recommendation to the Commissioner of Internal Revenue

We recommend that IRS develop and implement a statistically valid survey of its ability to fill phone and mail orders. The survey should (1) correct the problems that we identified with the 1990 test; (2) include measures that are consistent from year to year, thus allowing measurement of performance over time; and (3) provide the basis for establishing annual goals.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue commented on a draft of this report by letter dated November 26, 1990 (see app. V). The Commissioner agreed with our recommendation and said IRS had developed a quality testing plan for the 1991 filing season. As described by the Commissioner, the National Office will track procedural problems and turnaround time (time from when an order is placed until received) while the individual centers will test for overall accuracy in filling taxpayer orders and for procedural compliance. Once implemented, IRS expects to use the test results to measure each distribution center's performance on a year-to-year basis.

As of November 21, 1990, IRS had not finalized the details of its test methodology. We reviewed a preliminary copy of IRS' testing plan and discussed its contents with IRS staff in the Publishing Services Branch. We believe, on the basis of that review and discussion, that the plan lays a basic framework that, if properly implemented, should effectively measure IRS' ability to fill taxpayers' orders of tax materials.

Accuracy of IRS' Telephone Assistance Improved in 1990, but Accessibility Declined

Each year, millions of taxpayers call IRS assistors over IRS' toll-free telephone lines to ask questions about the tax laws, procedural issues, and account-related matters. Providing accurate and timely telephone assistance reduces errors on tax returns and promotes taxpayers' confidence in IRS. IRS implemented the Integrated Test Call Survey System (ITCSS) in 1988 to measure the accuracy of service provided by the toll-free telephone system. ITCSS results, and our own independent test, showed that IRS' accuracy during the 1990 filing season improved substantially over the 1989 filing season. However, taxpayers received more busy signals in 1990 when calling IRS, thus making reaching an assistor more difficult for taxpayers.

Accuracy of Toll-Free Telephone Assistance Improved in 1990

Over the past several years, Congress and the public have expressed concern about the accuracy of the responses provided by IRS assistors to questions designed to test their tax law knowledge. During the 1989 filing season, for example, ITCSS showed that IRS assistors provided correct responses to the test questions 63 percent of the time. One of IRS' goals for the 1990 filing season was to improve the accuracy rate to 80 percent. Although accuracy did not reach 80 percent, ITCSS results and our test results show that accuracy had improved considerably in 1990.

ITCSS Results Show That Accuracy Improved Over 1989

During the 1990 filing season, IRS administered ITCSS by having test callers (1) place anonymous calls to telephone assistors located at 29 call sites within the continental United States and (2) score assistors' answers to 43 test questions about the tax laws. These test questions were developed to cover seven tax law areas about which taxpayers usually ask questions when preparing their tax returns.[1] We worked with IRS in developing the questions and the scoring used in the test.

On the basis of 14,852 calls made over an 11-week period beginning February 5, 1990, ITCSS results for the 1990 filing season showed that IRS telephone assistors responded correctly 77 percent of the time to the test questions. The accuracy rates by call site are shown in appendix I. The 1990 accuracy rate of 77 percent compares favorably with the 63 percent accuracy rate in 1989. IRS has established an accuracy goal of 85 percent for the 1991 filing season.

[1] The seven areas were filing information, exemptions, individual income, capital gains, pensions, adjustments to income, and tax computation.

ITCSS Provided a Reliable Measure of Assistor Performance

To evaluate the validity of ITCSS, we monitored and independently scored assistor answers to 704 randomly selected ITCSS test calls and compared our scoring results with IRS' scoring results. Overall, we scored 550 of the 704 assistor answers as correct, while IRS scored 553 answers as correct. Using the same method as IRS to statistically weight our scoring, we found a 77 percent accuracy rate for the 704 calls compared to IRS' accuracy rate for the monitored calls of 78 percent. Because the difference in these rates is not statistically significant, we concluded that the accuracy rate IRS reported for all ITCSS calls can be relied upon as a valid indicator of assistors' performance.

The variance between our and IRS' scoring of test calls was due primarily to differences in interpreting assistors' probes and responses. Assistors need to "probe," or ask, callers for information because taxpayers frequently are unfamiliar with the tax laws and do not know what information assistors need to answer their questions. Without knowing key facts about a taxpayer's situation or status, assistors cannot be certain that the response provided applies to the taxpayer. Assistors, therefore, must elicit that information from the taxpayer or provide a conditional response.

In most of the calls we monitored, assistor probes and responses either clearly met or clearly failed to meet the scoring criteria required for a correct response. However, in some cases we needed to make judgments on whether the probes and responses were correct. On 33 of the calls, or about 5 percent of our sample, we disagreed with IRS test callers as to whether an assistor provided a correct or an incorrect answer. For 15 of the 33 calls, we scored the responses as correct and IRS scored them as incorrect. For the other 18 calls, we scored the responses as incorrect, and IRS scored them as correct.

Our Test Results Showed Similar Improvements in Accuracy

As a further measure of the accuracy of assistor answers to tax law questions, we made our own test calls to 29 IRS call sites located in the continental United States from February 5 to March 16, 1990. We scored 1,261 responses to 20 test tax law questions selected from questions used by IRS in its 1989 test. Our results showed that assistors answered these questions correctly 78 percent of the time. In 1989, assistors correctly answered a different set of test questions 66 percent of the time. In 1988, assistors provided correct answers to another set of test questions 64 percent of the time.

IRS Attributes the Improved Accuracy to Various Factors

According to officials in IRS' Taxpayer Service function, several factors contributed to IRS' improved accuracy in 1990: (1) increased managerial emphasis, (2) a more stable and experienced work force, and (3) development of guides to help assistors probe for all the facts needed about a taxpayer's situation—a problem area we had identified in prior years' tests.

First, IRS emphasized the importance of accurate assistor responses by designating accuracy as a critical success factor in 1990 and by incorporating accuracy goals in managers' contracts. Second, in contrast to past years, IRS opted not to hire temporary employees or use inexperienced staff to meet demand during periods when taxpayers placed the most calls. Finally, IRS' National Office developed a probe and response guide when it became evident during the design of last year's ITCSS that IRS lacked uniform standards for assistors to use when answering tax law inquiries.

The probe and response guide contained a series of questions, or "probes," that assistors could ask to obtain the information necessary to provide taxpayers with accurate answers. IRS regions expanded and revised the guide in different ways so that various guides were used during the 1990 filing season. To avoid differences that could affect the accuracy of assistor responses from call site to call site, IRS' National Office has reviewed the various guides, culling the most useful information from each and incorporating it into a national guide that will be used by all call sites in 1991.

IRS Plans to Continue Testing the Expert System

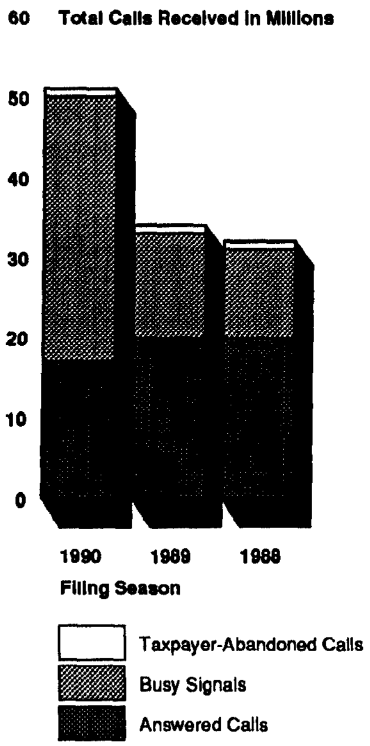
An IRS effort to improve telephone assistors' performance over the long term is the Taxpayer Service Expert Assistant System. This automated system, tested at IRS' Boston call site during the 1990 filing season, is designed so that an assistor can lead the taxpayer through a series of questions, each dependent on the taxpayer's response to a prior question, and reach a system-provided answer.

IRS is still evaluating the results of the test in Boston. ITCSS test scores for Boston showed an accuracy rate of 80 percent for the 1990 filing season compared to the national average of 77 percent. Boston showed an improvement of 21 percentage points over last year's scores compared with the national improvement rate of 14 percentage points. For our test questions, Boston had an accuracy rate of 72 percent compared to our overall rate of 78 percent. Taxpayer Service officials believe that the system demonstrated itself to be a proven concept that warrants further testing, and they are considering adding several additional test sites next year.

Toll-Free Accessibility Declined in 1990

Although taxpayers received more correct answers to their questions during the 1990 filing season, they had more difficulty reaching IRS. According to statistics generated by IRS as a result of its monitoring of the toll-free telephone system, taxpayers called IRS about 51.0 million times during the 1990 filing season, and IRS answered about 17.4 million of those calls, a 34 percent answer rate. Those who did not reach IRS received busy signals or, if they reached IRS, were placed on hold and hung up before IRS took their calls. Taxpayers were more successful in reaching IRS during the 1989 filing season, when IRS answered 19.6 million of 33.5 million calls, a 58 percent answer rate. In 1988, taxpayers called IRS about 32.1 million times and IRS answered about 20.0 million calls, a 62 percent answer rate. Figure 3.1 shows the level of difficulty taxpayers had reaching IRS for each of the last 3 years.

Figure 3.1: Accessibility of IRS Toll-Free Telephones During the 1988, 1989, and 1990 Tax Filing Seasons



Source: IRS Telephone Data Reports.

As another measure of accessibility, IRS tracks the number of calls it answers on a caller's first or second call attempt. IRS obtains this data by randomly asking taxpayers how many times they had to call before reaching IRS. For the 1990 filing season this rate also declined. IRS answered 74 percent of incoming calls on the caller's first or second attempt, compared to 90 percent in 1989.

Our independent test of IRS' telephone assistance also showed a decrease in accessibility. We reached an IRS assistor on the first attempt 55 percent of the time in 1990, compared to 69 percent in 1989 and 76 percent in 1988.

IRS attributed its reduced accessibility to funding cutbacks and a higher-than-expected demand for toll-free service. Because of these funding cutbacks, IRS reduced the number of toll-free telephone lines taxpayers could call from 4,622 during the 1989 filing season to 4,411 in 1990. The number of assistors taxpayers could call also declined. During periods when IRS received the most calls, 4,732 assistors were available to answer calls in 1990, down from 5,095 employees in 1989. At the same time, according to IRS estimates, taxpayer demand for toll-free service ran about 8 percent higher than last year.

IRS' goal for the 1991 filing season is to meet taxpayer demand for toll-free service at about the same level of accessibility achieved in 1990. A Taxpayer Service official told us that IRS decided not to set a higher goal because of uncertainties about the amount of resources that would be available to hire and train staff and to buy additional equipment and because of a reluctance to compromise accuracy.

Conclusions

Although IRS did not quite achieve the 80 percent accuracy goal it set for itself before the 1990 filing season, accuracy improved substantially over 1989—by about 14 percentage points. IRS was less successful in having an assistor available to answer taxpayer calls. IRS' plans do not call for improved accessibility during the 1991 filing season because of uncertain resources and management's unwillingness to improve accessibility at the expense of accuracy. In light of IRS' improved accuracy and because its decisions about accessibility appear reasonable, we are not making any recommendation.

Returns Processing Performance Improved Over Prior Years

IRS has coped well with annual increases in the number of tax returns filed by individual taxpayers. Despite annual increases of between 2 and 3 percent a year, returns processing has gone smoothly over the last three filing seasons. The 1990 filing season was no exception. Quality of service indicators, such as returns processing timeliness, the interest paid on delayed refunds, error rates on returns, and service center inventory levels, all showed improvement over 1989.

IRS Processed Returns Faster in 1990

Each filing season, taxpayers file over 100 million individual income tax returns at IRS' 10 service centers across the country. Returns received at a service center enter a returns processing "pipeline," where they are sorted, edited, and entered into computers for further processing and posting to taxpayer accounts. It is important for IRS to establish an orderly processing operation in January and February to avoid processing backlogs in April when IRS receives about 40 percent of its filing season volume. Appendix II shows the various steps in the returns processing pipeline.

IRS reported that it had received 111 million returns through August 31, 1990 (a date we used so as to include returns received with approved 4-month extensions),[1] a 2.1-percent increase over 1989, and issued 75 million refunds, a 1.8-percent increase. About 66 percent of the returns were filed on Form 1040. Table 4.1 compares the number and type of individual income tax returns filed in 1990 with those filed during comparable periods in 1988 and 1989.

Table 4.1: Numbers and Types of Returns Received During 1988, 1989, and 1990
(January Through August)

	Number received (in millions)			Percent increase
Type of return	**1988**	**1989**	**1990**	**1988-1990**
Form 1040[a]	69.9	70.5	73.3	4.9
Form 1040A	17.7	18.8	18.4	4.0
Form 1040EZ	18.4	19.6	19.5	6.0
Totals	**106.0**	**109.0[b]**	**111.2**	4.9

[a]Form 1040 receipts include all electronically filed returns.

[b]Total does not add due to rounding.

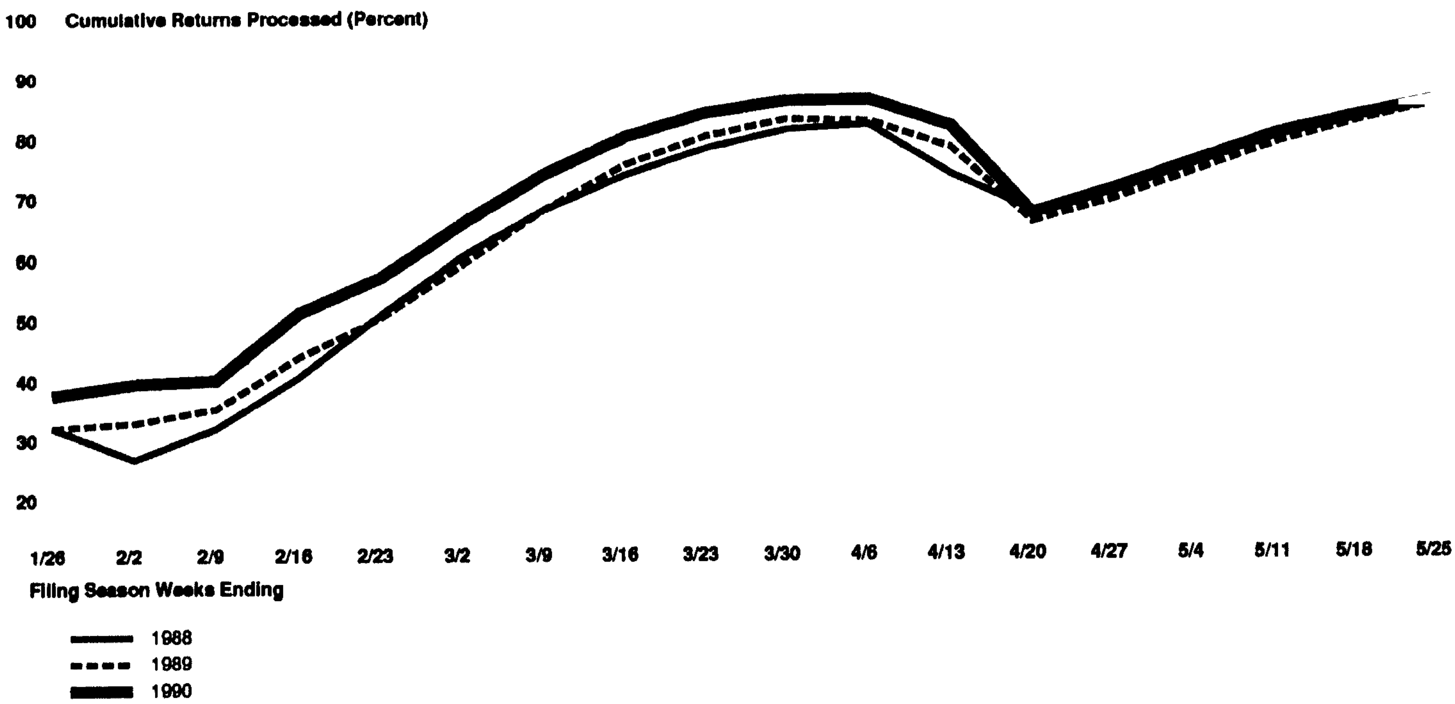
Source: IRS Management Information System for Top Level Executives.

[1]Of the 111 million, about 4.2 million returns were filed through IRS' electronic filing system, up from 1.2 million in 1989 and 583,000 in 1988. Under this system, tax preparers transmit tax returns over communication lines to one of three IRS service centers. The returns are transmitted directly to a computer system where the information is automatically edited, processed, and stored for subsequent use. This system bypasses the manual processes for handling paper tax returns and, according to IRS, results in fewer errors and faster refunds.

Figure 4.1 shows that the centers generally processed a larger percentage of their receipts early in the 1990 filing season compared to 1989 and 1988. As of February 23, 1990, IRS had processed 18.1 million, or 57 percent, of the 31.9 million returns it had received to that point in time. By contrast, IRS had processed 15.1 million, or 49 percent, of the 30.8 million returns it had received as of February 24, 1989. As a result, IRS was able to reduce the risk of large backlogs that might have delayed the processing of April returns and the issuance of tax refunds.

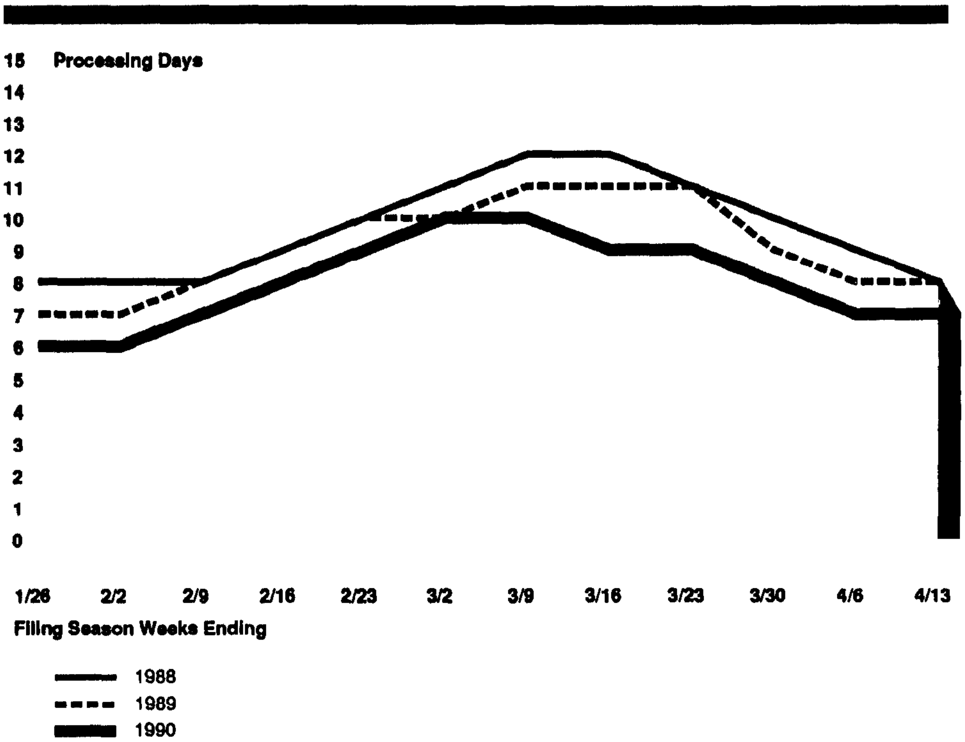
One reason service centers were able to process more returns earlier was that they processed returns faster in 1990 than in prior years. Form 1040 is usually the most complicated individual income tax return to process. As shown in figure 4.2, centers generally took fewer days in 1990 to process those returns than they did in 1988 and 1989.

Figure 4.1: Percentage of Returns Processed During the 1988, 1989, and 1990 Tax Filing Seasons



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

Figure 4.2: IRS Service Center Processing Days for 1040 Returns During the 1988, 1989, and 1990 Tax Filing Seasons



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

Faster Returns Processing Led to Less Interest Paid on Delayed Refunds

When IRS receives tax returns during the filing season, it separates those on which the taxpayer has determined that he or she is due a refund (called refund returns) from those that have a payment attached (called remittance returns). After depositing the payment,[2] IRS generally sets the remittance return aside for later processing so that it can concentrate its resources on processing refund returns, thus avoiding the need to pay interest.[3]

Because service centers processed returns faster in 1990, they were able to complete their processing of refund returns earlier and reduce the amount of interest they paid on delayed refunds. As of August 23, 1990,

[2]In August 1990, we reported that the government forgoes substantial interest earnings because service centers need additional time to deposit payments received around April 15. See Tax Administration: IRS Needs to Assess Options to Make Faster Deposits of Large Tax Payments (GAO/GGD-90-120, Aug. 31, 1990).

[3]Section 6611 of the Internal Revenue Code requires that IRS pay interest on any taxpayer refund it does not process within 45 days of the return's due date (normally April 15 for individual filers) or the date IRS received the return, whichever is later.

IRS had paid $10.3 million in interest on 743,000 refunds, compared with $15.2 million on 1.1 million refunds through the same period in 1989.

Another reason interest payments decreased was because service centers processed more returns filed with remittances before the 45-day interest-free period expired. Because it processes the refund returns first, IRS does not begin processing many of the remittance returns until June—after the 45-day interest-free period has expired. Accordingly, if a return that was originally identified as a remittance return is found, after processing, to involve a refund, IRS will have to pay interest on the refund. This situation can occur when taxpayers, in preparing their returns, make errors that cause them to pay more tax than they should have and thus be due a refund. To the extent that service centers can process remittance returns earlier in the filing season, they can reduce the amount of interest paid on these refunds.

To avoid paying interest on refunds in 1990, IRS had to issue the refunds by May 30. For a refund to be issued by then, service centers had to complete processing the returns by May 17. Through May 18, 1990 (the date nearest to May 17 for which IRS had data on remittance returns), service centers processed about 22 percent of their remittance returns, up from about 19 percent in 1989. The centers accomplished the additional processing despite a 3-percent increase in remittance returns over 1989. Service center officials said that in the past several years, the centers have begun using temporary staff to process remittance returns earlier in the filing season, rather than postponing the processing until June. In the past, IRS furloughed these staff between periods of high volume in February and April.

Because IRS processed remittance returns faster, it issued fewer refunds stemming from errors on remittance returns after June 1. Between June 1 and September 8, 1990, IRS issued about 629,000 notices to advise taxpayers of errors they had made on their remittance returns that had caused them to overpay. This was a decrease of about 203,000 notices compared to 1989.

Some Minor Refund Delays Occurred in 1990

Although IRS processed most returns faster in 1990 and issued timely refunds, refunds for a few taxpayers were delayed. According to IRS officials, the delays did not cause IRS to pay additional interest and only the delays on electronically filed returns caused refunds to be issued later than IRS' prescribed time frames—2 to 3 weeks for electronically filed returns and 6 to 8 weeks for returns filed on paper.

In February 1990, for example, about 250,000 refunds, including about 53,000 issued through IRS' electronic filing program, were delayed about 2 weeks. The delay occurred because a courier failed to deliver tapes that were being transported between the Cincinnati Service Center and IRS' Martinsburg, West Virginia, computing facility. A breakdown in controls allowed the nondelivery to go undetected for about 2 weeks.

As many as 170,000 additional refunds, including those on 31,000 electronically filed returns, were delayed about 1 week because tapes containing data from returns filed at the Ogden, Utah, Service Center could not be read by computers at the Martinsburg facility. IRS officials said that the problem was quickly identified and Martinsburg received corrected backup tapes within 24 hours. Refunds were delayed a week, however, because Martinsburg processes refunds weekly and the refunds for that week had already been processed.

IRS also experienced some difficulty reissuing refund checks when direct deposits of taxpayers' refunds did not post to the taxpayers' bank accounts. Under IRS' electronic filing program, taxpayers can opt to have their refunds deposited directly into their bank accounts, in lieu of having Treasury's Financial Management Service (which acts as the disbursing agent for IRS refunds) mail them paper checks. To obtain a direct deposit, taxpayers supply IRS with information about the location of their bank and their account number. If this information is incorrect, the direct deposit generally will not post to a taxpayer's bank account. When the deposit does not post, the normal procedure is for the Financial Management Service to transmit the refund information back to IRS so a paper refund can be issued. This year, according to IRS officials, the Financial Management Service experienced some delays in transmitting refund information back to IRS. As a result, refunds for about 2,000 taxpayers were delayed about 2 weeks.

Error Rates Declined in 1990

Errors that prevent IRS from processing a return or posting information from the return to a taxpayer's account are caused either by a taxpayer making a mistake in filling out his or her return or by IRS personnel making a mistake in processing the return. Errors cause additional IRS processing and may delay a taxpayer's refund. If undetected, an error may cause incorrect information to be entered into a taxpayer's account and require correspondence between IRS and the taxpayer at some later date.

Over the last several years, the percentage of returns with errors has declined. IRS' cumulative statistics through August 15, 1990, show that the number of returns with errors was about 18 percent, down from 20 percent in 1989 and 23 percent in 1988.

IRS statistics show that taxpayers accounted for 58 percent of the errors on returns filed through August 1, 1990, the last date in 1990 that IRS reported this information. Over the last three filing seasons, IRS statistics show that the percentage of taxpayer-caused errors has remained relatively constant, with taxpayers accounting for 54 percent of the errors in 1989 and 55 percent in 1988.

According to IRS statistics, taxpayers tended to make the same types of errors over the last three filing seasons. The three most common taxpayer errors in 1990 involved failures to (1) correctly claim or compute the earned income tax credit, (2) correctly figure a refund or the amount of taxes owed, and (3) claim the correct amount of estimated tax payments or credits. These errors were also the most prevalent taxpayer errors during the 1988 and 1989 filing seasons.

During the 1990 filing season, IRS attributed 35 percent of the errors to mistakes made by service center staff while processing returns (see app. II for a description of that process).[4] As was the case with taxpayer errors, the percent of IRS errors has remained relatively constant over the last 3 years, amounting to 38 percent of the errors in 1989 and 36 percent in 1988.

Most of the IRS errors occurred when service center staff failed to add processing codes that direct the computer to take certain actions or failed to enter tax information for computer processing. The most common 1990 errors occurred because service center staff failed to (1) direct the computer to sort out for further review tax returns with potential discrepancies between reported wages and withholdings, (2) enter codes used by the computer to identify the presence of dependents' Social Security numbers, and (3) enter into the computer information on whether taxpayers had designated if they were named as dependents on other tax returns. As was the case with taxpayer errors, IRS statistics show that the most common IRS errors in 1990 were also among the most common errors occurring in 1989 and 1988.

[4] According to IRS, the remaining 7 percent of the errors involved conditions, such as returns on which the taxpayers reported wages but no withheld taxes, that computerized consistency checks identified for further analysis. Although classified as errors, further analysis might prove otherwise.

IRS has been trying to reduce the incidence of errors on tax returns. To reduce taxpayer errors, IRS officials told us that over the last several years they have modified parts of the tax forms and instructions to help reduce any confusion that taxpayers might have with filing requirements. To reduce IRS-caused errors, they have emphasized the problem areas when training returns processing staff prior to each filing season. In January 1990, IRS' National Office assigned the 10 most persistent taxpayer and IRS problem areas to individual service centers and regions for additional quality analysis. The goal is to find and implement solutions in time for the 1991 filing season.

1990 Service Center Inventory Levels Were Generally Lower Than Past Years

Another measure of quality in IRS' returns processing operation is the level of various service center inventories. These inventories represent IRS measures of things "gone wrong" or needing special attention. They include (1) inventories of returns with errors needing correction before they can be processed and posted to taxpayer accounts and (2) inventories of taxpayer correspondence requiring an IRS response or adjustment. A failure to keep service center inventories at manageable levels can delay the processing of tax returns and the posting of changes to taxpayer accounts and can result in delayed refunds or erroneous notices to taxpayers. IRS' fiscal year 1990 Annual Business Plan, which IRS uses to establish annual objectives for managers, included service center inventory management as one of the factors that was critical to the agency's success.

As shown in table 4.2, service center inventories at the end of August 1990 were generally lower than at the end of August 1989. Appendix III shows that service centers were generally successful at keeping monthly inventory levels lower throughout the first 8 months of 1990 than in 1988 and 1989.

Table 4.2: Comparison of Service Center Inventories on September 1, 1989, and August 31, 1990

Inventory	Inventory level 1989	Inventory level 1990	Percent decrease 1989 to 1990
Adjustments/ Correspondence	548,626	394,648	28
Unpostables	460,424	296,606	36
Entity	194,270	120,023	38
Blocks out of Balance	31,427	28,908	8
Rejects	192,780	132,264	31
Unidentified Remittances	16,457	13,379	19

The various inventories are described as follows:

Adjustments/Correspondence—taxpayer inquiries, claims and amended returns, applications for tentative refunds, and internally generated notices that may require adjustments to taxpayer accounts and/or IRS responses to taxpayers.

Unpostables—tax returns and other tax transactions that require additional research because of discrepancies between data existing on taxpayer accounts and the tax returns or transactions.

Entity—cases that require IRS to update or correct taxpayer files because of name changes, address changes, changes to accounting periods, or requests for employer identification numbers.

Blocks out of balance—blocks of returns (a block usually contains 100 returns) for which the computer total of the number of returns in the block and/or the amount of taxes paid on those returns does not agree with the actual number or amount.

Rejects—returns that cannot be worked within normal processing time frames because of missing or inconsistent information on the returns that requires taxpayer contact or additional IRS research.

Unidentified remittances—tax remittances that require additional IRS research to determine who should receive credit for the payment.

In its returns processing business plan for fiscal year 1991, IRS established more stringent goals for managing service center inventories. For example, in 1991, service centers must keep the number of adjustments/correspondence cases that are 45 days or older to no more than 15 percent of the total inventory. In 1990, the goal was no more than 20 percent.

Service Center Inventory Receipts Lower in 1990

One reason that service centers were able to maintain lower inventories in 1990 was that they had fewer receipts into those inventories. Table 4.3 shows that except for the adjustments/correspondence inventory, receipts into each inventory were substantially lower than in 1989. IRS officials explained that the adjustments/correspondence receipts did not decrease substantially because service centers included cases in the 1990 inventory that had not been included in prior years.

Table 4.3: Comparison of Service Center Inventory Receipts as of September 1, 1989, and August 31, 1990 (Cumulative From January 1)

(cases in thousands)

Inventory	1989	1990	Percent decrease 1989 to 1990
Adjustments/ Correspondence	8,378	8,318	1
Unpostables	7,909	6,972	12
Entity	6,795	6,408	6
Blocks out of Balance	15,848	13,986	12
Rejects	2,709	2,310	15
Unidentified Remittances	59	47	21

Appendix IV shows that 1990 inventory receipts were also generally below 1988 levels. The Commissioner of Internal Revenue attributes the decrease in inventory receipts to the Service's emphasis on taxpayers and IRS "doing it right the first time." We agree that preventing errors from occurring is preferable to the subsequent correction or adjustment of errors after they occur.

Conclusions

Except for some relatively minor refund delays and the nagging persistence of certain errors on returns, IRS' performance during the 1990 filing season improved over its performance during the 1988 and 1989 filing seasons, both of which were considered successful in their own right. Returns were processed faster, overall error rates decreased, and service center inventory levels were lower. As a result, fewer taxpayers experienced delays in receiving their refunds or should have needed to contact IRS about errors on their returns. In light of IRS' successful performance, we are making no recommendations.

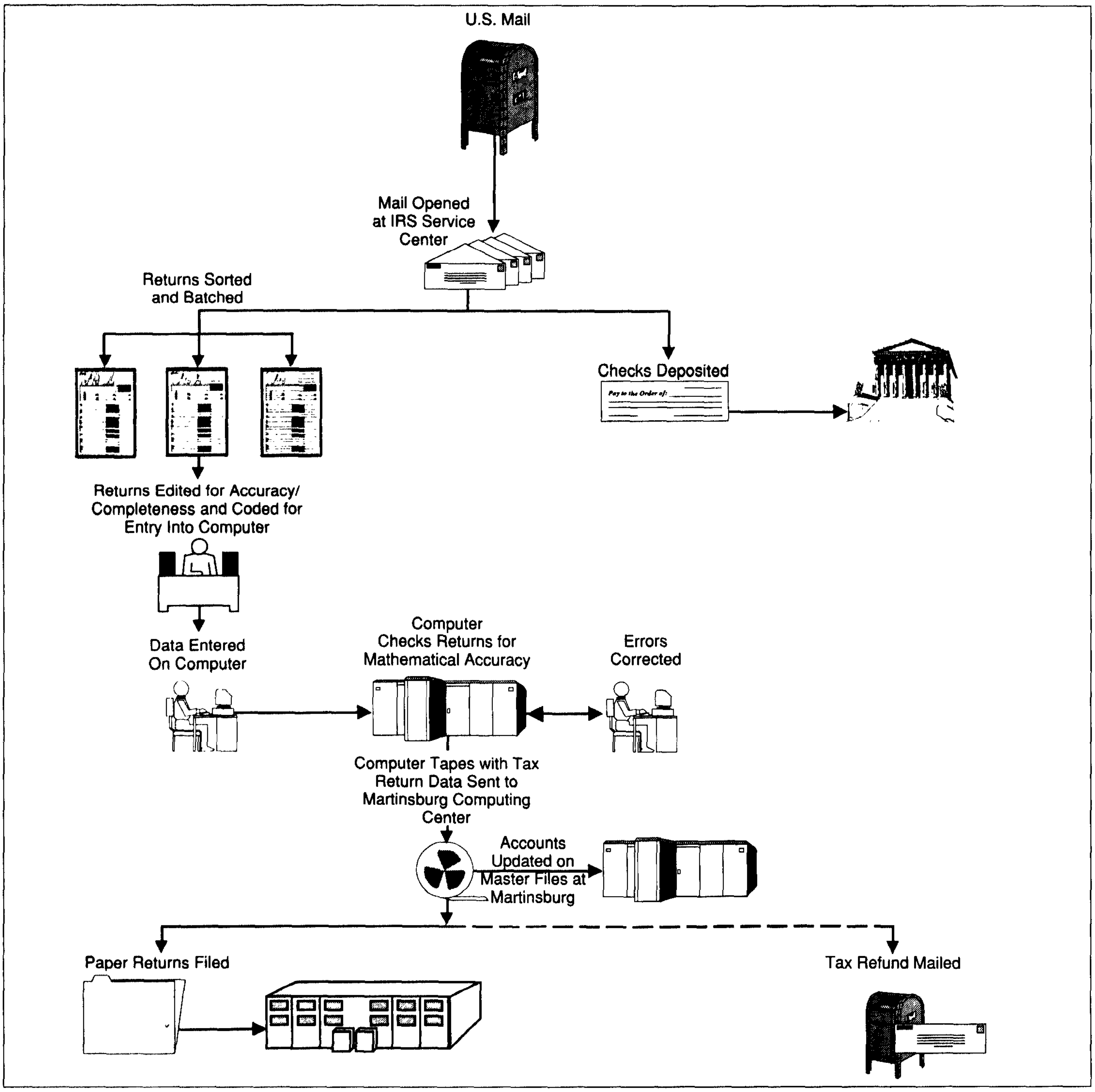
Accuracy Rates for IRS Toll-Free Telephone Sites 1990 IRS Test Call Survey Results

(Figures in percent)

IRS telephone sites by region	Estimated accuracy rate	Accuracy rate range
Central Region		
Cincinnati	75.2	70.2 - 79.4
Cleveland	80.4	75.3 - 86.1
Detroit	77.1	71.4 - 82.4
Indianapolis	78.9	73.6 - 83.4
Mid-Atlantic Region		
Baltimore	79.0	73.9 - 83.8
Newark	73.3	68.1 - 77.3
Philadelphia	67.9	63.5 - 73.2
Pittsburgh	81.7	77.4 - 87.0
Richmond	78.1	72.5 - 82.5
Midwest Region		
Chicago	72.6	69.3 - 76.3
Des Moines	83.1	79.4 - 87.0
Milwaukee	87.7	81.7 - 90.8
Omaha	85.7	80.9 - 88.9
St. Louis	83.1	78.9 - 87.8
St. Paul	82.0	76.4 - 87.2
North Atlantic Region		
Boston	79.5	76.3 - 83.4
Brooklyn	70.1	64.7 - 75.3
Buffalo	79.2	72.8 - 83.9
Southeast Region		
Atlanta	75.7	71.1 - 80.4
Jacksonville	82.3	78.7 - 87.0
Nashville	80.2	76.0 - 84.9
Southwest Region		
Dallas	82.4	79.7 - 85.6
Denver	76.2	72.4 - 81.5
Houston	74.8	70.3 - 78.2
Phoenix	73.0	68.3 - 78.1
Western Region		
El Monte	68.0	62.8 - 73.2
Oakland	75.1	72.1 - 79.9
Portland	73.1	64.8 - 78.6
Seattle	78.7	74.9 - 83.4

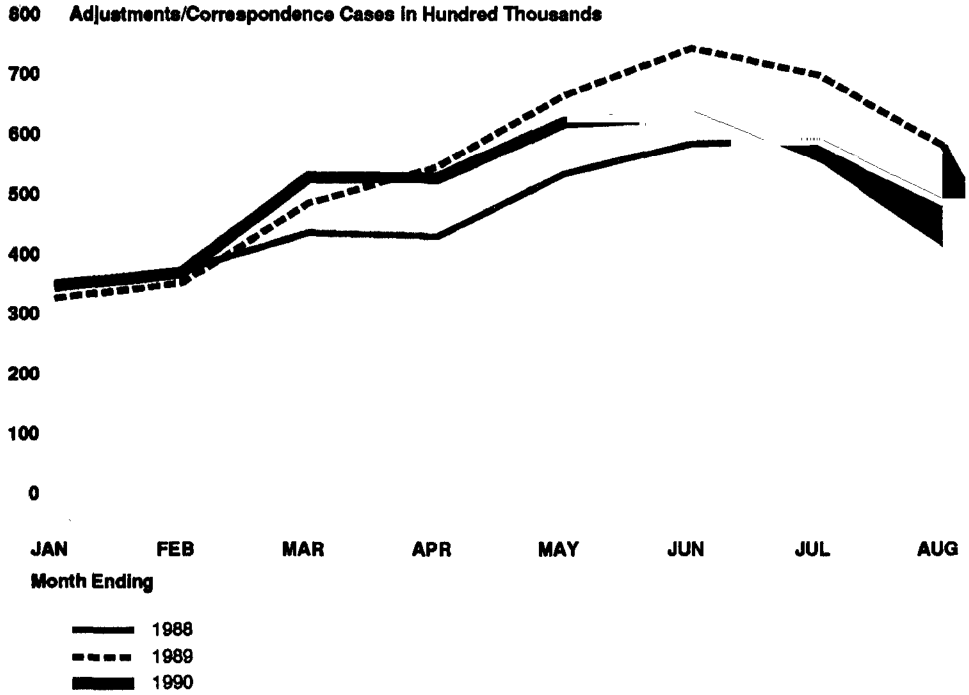
Source: Internal Revenue Service.

Returns Processing Pipeline



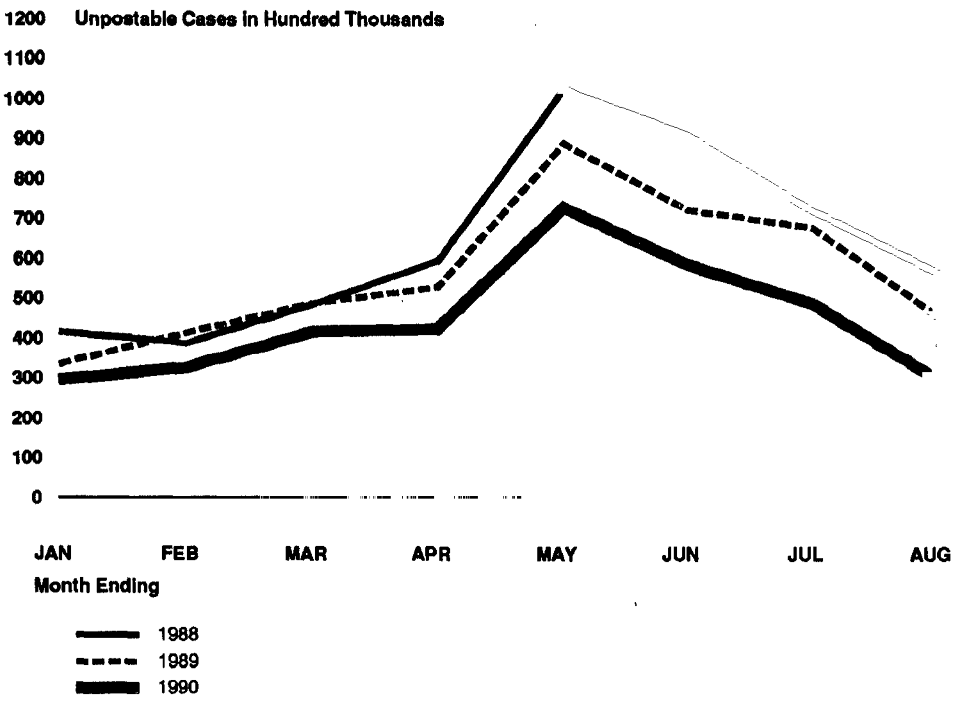
Comparison of Monthly Service Center Inventory Levels for 1988, 1989, and 1990

Figure III.1: Monthly Adjustments/ Correspondence Inventory Levels for 1988, 1989, and 1990 (January - August)



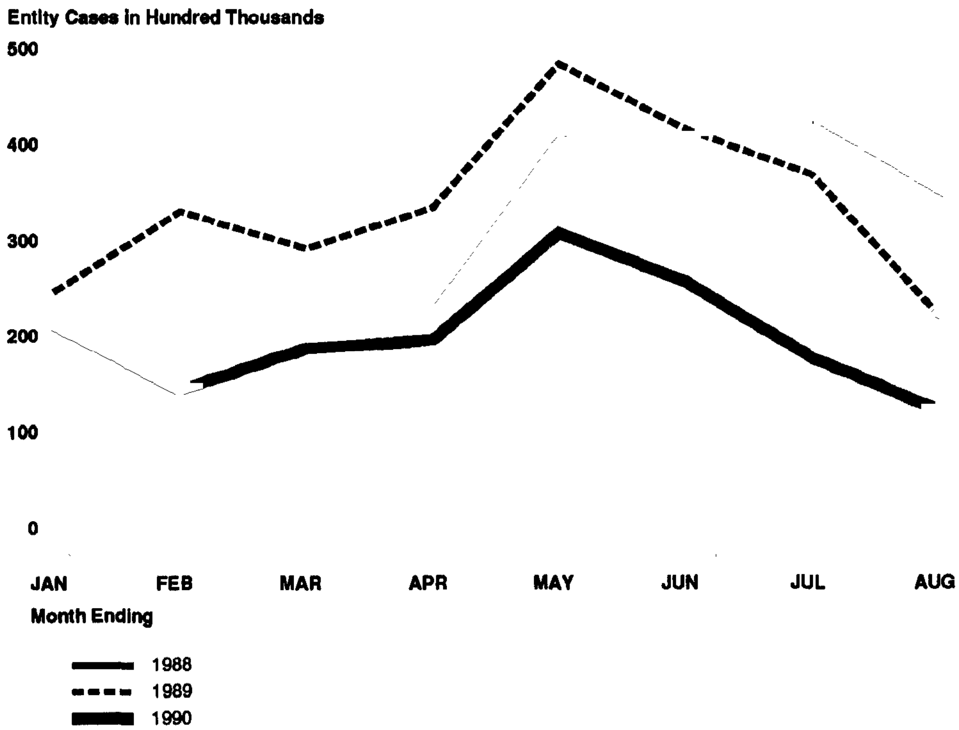
Source: IRS' Management Information System for Top Level Executives.

Figure III.2: Monthly Unpostables Inventory Levels for 1988, 1989, and 1990 (January - August)



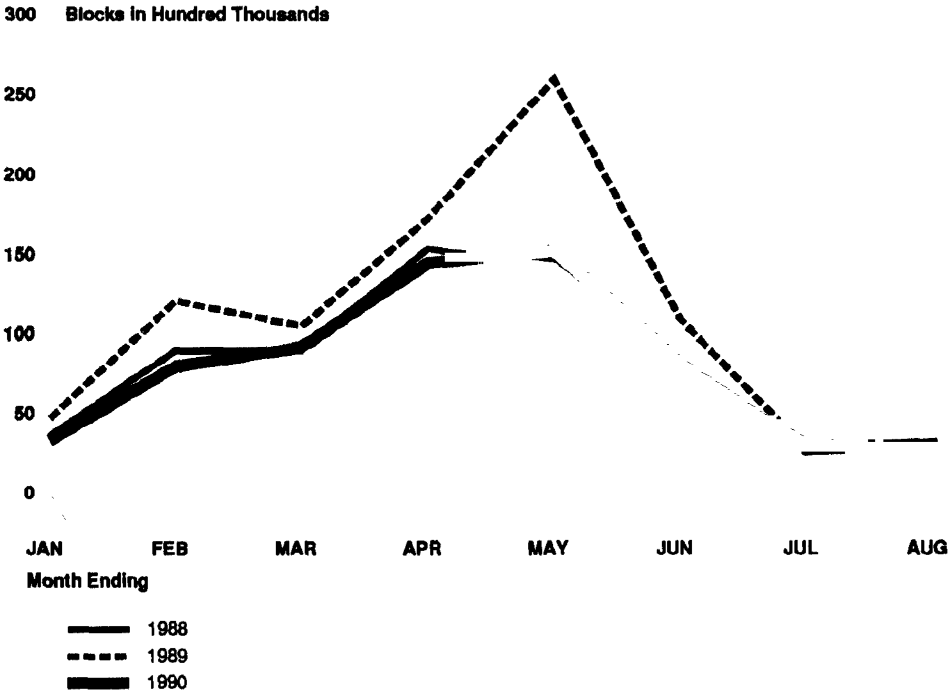
Source: IRS' Management Information System for Top Level Executives.

Figure III.3: Monthly Entity Inventory Levels for 1988, 1989, and 1990 (January - August)



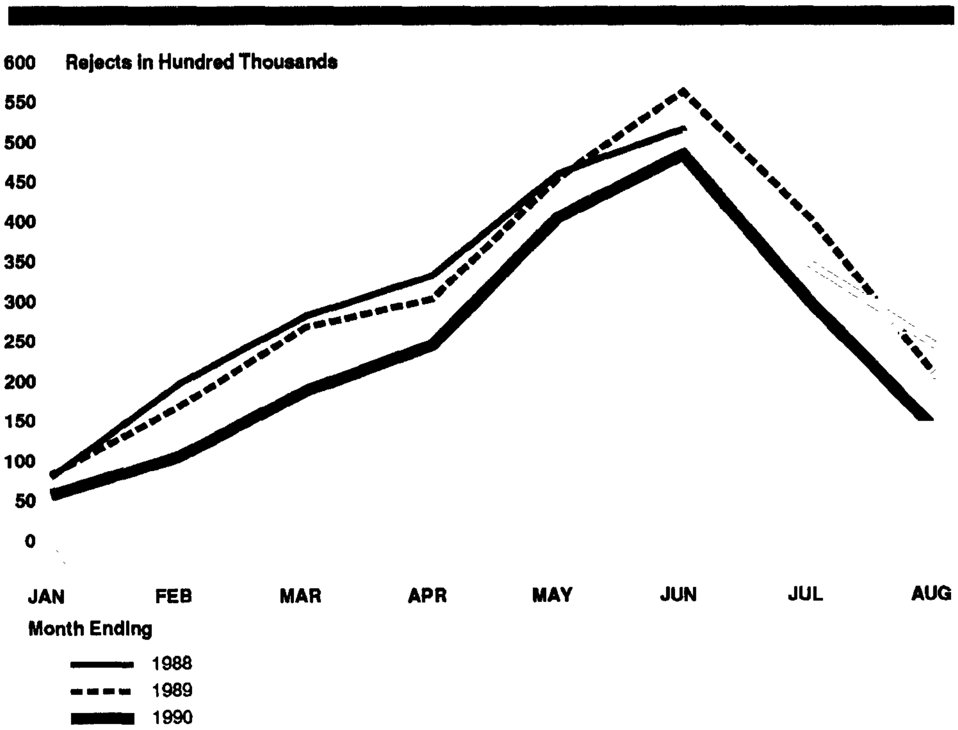
Source: IRS' Management Information System for Top Level Executives.

Figure III.4: Monthly Blocks Out of Balance Inventory Levels for 1988, 1989, and 1990 (January - August)



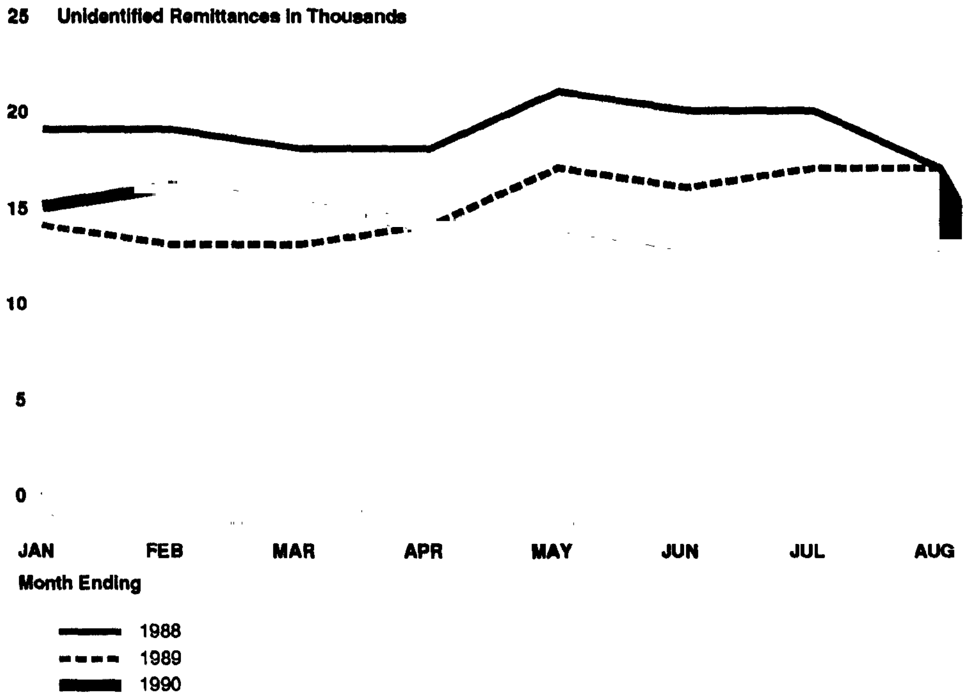
Source: IRS' Management Information System for Top Level Executives.

Figure III.5: Monthly Rejects Inventory Levels for 1988, 1989, and 1990 (January - August)



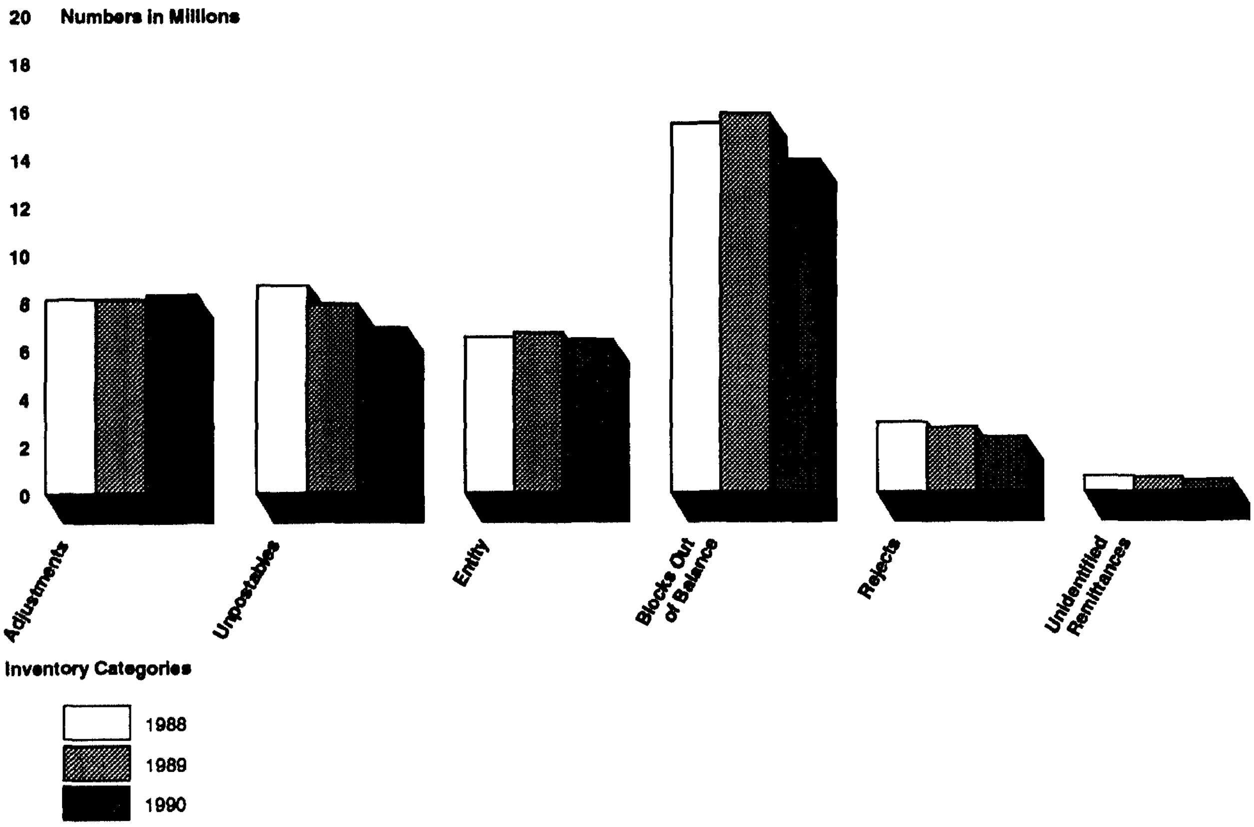
Source: IRS' Management Information System for Top Level Executives.

Figure III.6: Monthly Unidentified Remittance Inventory Levels for 1988, 1989, and 1990 (January - August)



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

Comparison of Monthly Service Center Inventory Receipts for 1988, 1989, and 1990



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

Comments From the Internal Revenue Service

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

COMMISSIONER

NOV 26 1990

Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

We have reviewed your recent draft report entitled, "Tax Administration: IRS' 1990 Filing Season Performance Continued Recent Positive Trends".

As the report indicates, IRS had a successful 1990 filing season. The report notes IRS' improvements in toll-free telephone accuracy rates and in processing tax returns both of which should continue to improve in the future. We agree with the report's recommendation that IRS develop and conduct a statistically valid survey of its ability to fill phone and mail orders for tax materials. The recommendation further states that the survey should: "(1) correct the problems that we identified with the 1990 test; (2) include measures that are consistent from year to year, thus allowing measurement of performance over time; and (3) provide the basis for establishing annual business plan goals."

We are already well on our way to implementing this recommendation. Our Publishing Services staff, with the assistance of the Research Division, has developed a quality testing plan for 1991. Once implemented, this plan will be perfected and the results will be used to compare each distribution center's accuracy on a year-to-year basis. It will also allow for a more accurate comparison among centers.

The individual centers will be testing for total overall accuracy as well as for procedural compliance. The National Office test will track procedural problems and turnaround time (time from when order is placed until received). Formulae have been developed for both tests and include weighing the results to effectively rate our overall performance in filling all types of orders. We have provided GAO staff with a copy of this testing plan.

-2-

Mr. Richard L. Fogel

We believe that these actions will improve the quality and timeliness of our tax materials distribution program. Overall, we believe that we are well prepared for the upcoming 1991 filing season and we expect it to be a success.

Best regards.

Sincerely,

Fred T. Goldberg, Jr.

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