

GAO

Testimony

For Release
on Delivery
Expected at
9:30 a.m. EST
Wednesday
March 20, 1991

IRS' Budget Request for Fiscal Year 1992 and
Status of the 1991 Tax Return Filing Season

Statement of
Jennie S. Stathis, Director,
Tax Policy and Administration Issues

Before the
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives



IRS' FISCAL YEAR 1992 BUDGET
AND
THE 1991 TAX RETURN FILING SEASON

SUMMARY OF STATEMENT
JENNIE S. STATHIS
DIRECTOR, TAX POLICY AND
ADMINISTRATION ISSUES

IRS' fiscal condition in 1991 appears more stable than it was in fiscal years 1989 and 1990. During those years IRS encountered budget shortfalls of \$360 and \$465 million, respectively. IRS may have to absorb about \$74 million in cost increases for fiscal year 1991. However, IRS will apparently be able to cover most of these costs without having to take the drastic kind of actions it took in 1989 and 1990 when it froze hiring, curtailed promotions, and reduced support services. Because of the more stable fiscal condition this year, it appears that IRS will be able to more fully implement congressionally authorized compliance initiatives--something it was unable to do in fiscal year 1990.

IRS' first budget priority for fiscal year 1992 is full funding for existing staff and related support costs. This accounts for the largest portion of the requested \$622 million increase over the authorized level for fiscal year 1991. Compared to past budgets, the fiscal year 1992 budget appears to have been formulated to more accurately reflect on-board labor costs, thus improving the likelihood that new program initiatives will be implemented. However, IRS' ability to achieve some of the \$141 million in savings called for in the budget is uncertain.

The most significant compliance initiative proposed for fiscal year 1992 provides an additional \$34 million for IRS to collect delinquent accounts. GAO believes this request is reasonable in light of staffing reductions that resulted from past hiring freezes. Another initiative provides for \$5.5 million to increase the number of examinations of high dollar tax returns. This increase, however, will only expand audit coverage by .01 percentage point over the fiscal year 1991 level, thus doing little to reverse the steady decline in audit coverage.

GAO has also been monitoring IRS' performance during this year's filing season. On the basis of its analysis of various IRS indicators and its tests of the availability of forms and publications, GAO believes that this year's filing season is proceeding successfully, continuing a recent trend. For example, the current accuracy rate for telephone assistance is 80 percent. The one area that was a specific problem last year--taxpayers' ability to get through to IRS--is still a problem. As of March 9, 1991 IRS answered 9.6 million (42 percent) of the 22.7 million calls for assistance. That answer rate is better than last year's but well below the 61 percent answer rate for the 1989 filing season.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into IRS' current fiscal condition, IRS' budget request for fiscal year 1992, and the status of the 1991 filing season.

My testimony makes the following points:

- IRS' fiscal condition in 1991 appears more stable than had been the case the prior 2 years. There are some unanticipated costs that IRS is going to have to absorb this year, but not of the magnitude that existed in 1989 and 1990.
- Because of the more stable fiscal condition this year, it appears that IRS will be able to do something that it was unable to do in 1990--more fully implement congressionally-authorized compliance initiatives.
- IRS' budget request for fiscal year 1992 has been formulated in a way that seems to do a better job of fully funding IRS' current operations, which portends well for improved fiscal stability in 1992.
- The most significant compliance program increase in the fiscal year 1992 budget request involves additional staff to collect delinquent accounts. That request seems

reasonable, especially considering the negative effects of hiring freezes in 1989 and 1990. We continue to believe, however, that IRS needs better information for use in managing its collection activities.

- There are certain aspects of IRS' fiscal year 1992 budget request, in addition to the tax system modernization issues that will be discussed by our Information Management and Technology Division, that we believe the Subcommittee needs to consider during its deliberations. Those deal with the acceptable level of taxpayer telephone service and our continuing concerns about the level of audit coverage.

- Based on the various IRS indicators we have been monitoring and our own tests of the availability of forms and publications, this year's filing season has continued the recent trend of successes. This year, for example, IRS statistics show that its assistors have responded accurately to 81 percent of IRS' test questions, compared to 76 percent last year. There is conflicting evidence, however, as to how successfully taxpayers may be getting through to IRS this year compared to last.

FISCAL YEAR 1991--FINANCIAL STABILITY

We told the Subcommittee last year¹ that the most important question to be answered in assessing IRS' fiscal year 1991 budget request was whether it provided a base for stabilizing what had been an unstable fiscal environment. Because of that instability, IRS had to freeze hiring, curtail promotions, and cut back support services. One result of those actions was that new compliance initiatives that Congress had authorized for fiscal year 1990 could not be fully implemented.

Because of changes IRS made in preparing the fiscal year 1991 budget, we told the Subcommittee last year that the prospects for an improved fiscal condition in 1991 appeared good. We cautioned that several factors could adversely affect IRS' fiscal prospects, most notably pay reform and anticipated postal rate increases. We also questioned IRS' ability to achieve certain savings.

Before its final appropriation was passed, IRS officials met with congressional staff to discuss reallocations that were needed to the President's 1991 budget to deal with potential shortfall conditions, including those we discussed in last year's testimony. As a result of the reallocations, IRS' appropriation

¹IRS' Budget Request for Fiscal Year 1991 and Status of the 1990 Tax Return Filing Season (GAO/T-GGD-90-26, March 22, 1990).

covered most of those conditions. According to IRS Finance Division officials, however, IRS may still encounter a shortfall of about \$74 million which consists of (1) \$23 million for telecommunications; (2) \$11 million resulting from the inability to achieve FTS-2000 savings called for the 1991 budget; (3) almost \$7 million for postage for other Treasury agencies; (4) an additional \$18 million for geographic pay; and (5) \$15 million to purchase rather than lease certain computer equipment.

IRS plans to absorb some of the shortfall with funds that were originally authorized to be spent on compliance initiatives. Not all of these funds will be used for the initiatives, in part, because as discussed next, IRS was not able to hire the new staff as soon as anticipated.

Status of fiscal year 1991 compliance initiatives

IRS' fiscal year 1991 budget provided for compliance initiatives that IRS said would raise about \$0.5 billion in additional revenue in fiscal year 1991 and \$5.7 billion through fiscal year 1995. Congress appropriated \$191 million and 3,476 additional staff years for those initiatives. Because of budget reallocations and hiring delays, IRS now estimates that these initiatives will raise about \$230 million in fiscal year 1991-- less than half the original projection.

IRS based the original revenue projections on the assumption that it would begin hiring the additional staff on October 1, 1990. Because IRS did not receive its fiscal year 1991 appropriation until October 27, 1990, it did not begin hiring until early January 1991. IRS hopes to fully staff the initiatives by the end of fiscal year 1991. Even with this hiring, IRS' total enforcement staffing will be well below that realized in fiscal year 1988. For example, IRS' budget documents show that, on the average, IRS had 16,558 revenue agents in fiscal year 1988 compared to the 15,680 revenue agents that are expected for fiscal year 1991.

IRS also restructured the 1991 initiatives by dropping two service center initiatives and adding another collection initiative. One of the initiatives dropped was aimed at increasing correspondence audits and other service center contacts with taxpayers about problems with their returns. The other initiative sought to identify noncustodial parents who incorrectly claim their child's exemption on their federal tax returns. In lieu of these two initiatives, IRS added an initiative that will attempt to secure an additional 142,000 delinquent returns between January 1, 1991, and September 30, 1991. This initiative was one of six that had been authorized by Congress for fiscal year 1990 but were not implemented that year because IRS had to reallocate the funds to cover unbudgeted cost increases. With the new mix of compliance initiatives for fiscal

year 1991, IRS hopes to achieve about \$6.2 billion in additional revenue by fiscal year 1995.

MAINTAINING LABOR AND SUPPORT COSTS ACCOUNTS
FOR LARGEST PORTION OF FISCAL YEAR 1992 BUDGET INCREASE

Now turning to the fiscal year 1992 budget. The large budget shortfalls IRS experienced in fiscal years 1989 and 1990 were attributed, in part, to underestimating base labor and support requirements. Thus, IRS' first budget priority for 1992 is full funding for existing staff and related support costs. This accounts for about 51 percent of the fiscal year 1992 increase over the 1991 authorized level.

The budget totals \$6.7 billion and provides for 116,585 average positions, a net increase of \$622 million (10 percent) and 963 average positions (1 percent) over the authorized levels for fiscal year 1991. The \$622 million increase is a net of \$763 million in increases and \$141 million in decreases. The increases include

- \$388 million for labor and support costs;

- \$256 million for information systems, of which \$162 million is for IRS' modernization effort;

- \$57 million for new compliance and management initiatives, of which \$34 million is to increase the collection of delinquent accounts;
- \$46 million to annualize the costs associated with the 1991 compliance initiatives;
- \$16 million in workload increases, the bulk of which will be used to process an additional 2.6 million tax returns.

The \$141 million decrease is for nonrecurring costs and expected savings, which according to returns processing officials, include savings of \$17 million from electronic filing and \$15 million from the on-line-entity system. The on-line entity system is one of the projects that will be discussed as part of our Information Management and Technology Division's testimony.

We believe that the 1992 budget is cast in a way that continues the positive steps taken last year to more accurately reflect on-board labor costs and thus improves the chances that new program initiatives will be implemented. For example, compared to past budgets that required IRS to absorb at least some of the federal pay increase, the fiscal year 1992 budget provides funding for all of the anticipated 4.2 percent pay increase. It also more realistically assumes that revenue initiative staff will be on

board mid-way through the fiscal year rather than at the start of the year.

Some of the \$141 million in decreases may not be realistic. For example, the returns processing function is being cut about 900 average positions due to the expected savings from on-line entity systems and electronic filing. According to returns processing officials, to realize the estimated savings for electronic filing, 25 million returns would have to be filed electronically in fiscal year 1992. IRS currently estimates that it will receive 6.2 million electronically filed returns this year and is expecting 8.2 million in 1992.

In addition, the 1992 budget was adjusted for certain costs that should not recur--for example, a \$15 million computer purchase budgeted for fiscal year 1991. Such adjustments assume IRS will spend 1991 funds for their intended purpose and not divert them to other areas.

Proposed increase to collect delinquent accounts

The largest compliance program increase in the fiscal year 1992 budget is for 671 staff years and \$34 million to enable IRS to collect more delinquent accounts. As we have testified in the past, IRS does not have the necessary information to determine how many staff it needs to collect its accounts receivable.

Considering the size of the accounts receivable inventory, however, we believe the authorization of additional staff in fiscal year 1992 is appropriate--especially in light of the reduced staffing levels that resulted from 2 years of hiring freezes. For example, the average number of revenue officers in the collection activity had decreased from 8,238 in fiscal year 1988 to 7,601 in fiscal year 1990. In the longer term, IRS needs to change the way it carries out its collection activities based on sound financial and management information.

IRS has taken some steps to develop better information--information that can be used to obtain meaningful collection trends. We used the information in work we are doing at the request of the Chairman. We analyzed the limited historical data IRS now has available to project the ultimate disposition of the almost \$93 billion accounts receivable balance as of September 30, 1990. The analysis shows that, if IRS continues to do business as usual, it will

- collect only \$23 billion, or less than one-fourth of the accounts receivable balance,

- abate at least \$24 billion, and

- write off nearly \$46 billion due to the expiration of the 10-year statutory collection period.

These results should not be viewed as an indicator of IRS' overall collection effectiveness because IRS collects many new receivables before they become part of the year-end inventory. The \$23 billion collection estimate also needs to be compared with the portion of the receivables that could be collected. Clearly, for example, most of the \$24 billion to be abated would represent amounts that should not have been included in the inventory. Little is known, on the other hand, about the characteristics and validity of the \$46 billion we estimate will be written off. That type of information is critical to developing a collection strategy.

Issues to be considered
in assessing the adequacy
of the fiscal year 1992 budget

We will now discuss two issues that the Subcommittee may want to consider during its debate on the adequacy of IRS' proposed budget. We raise these issues to clarify what the proposed budget will provide, not necessarily to advocate additional funding. We realize that the amount of "discretionary funding" is limited and that funding decisions will be difficult.

Level of toll-free telephone service

First is the question of whether the 74 percent level of toll-free telephone service provided for in the budget is acceptable. IRS defines the level of service as the number of telephone calls IRS answers relative to its estimate of the number of persons calling for assistance. The level proposed for fiscal year 1992 is slightly below the 76 percent level that IRS expects to provide in fiscal year 1991. As we will discuss later, this year's level of service statistic translates into a 42 percent answer rate.

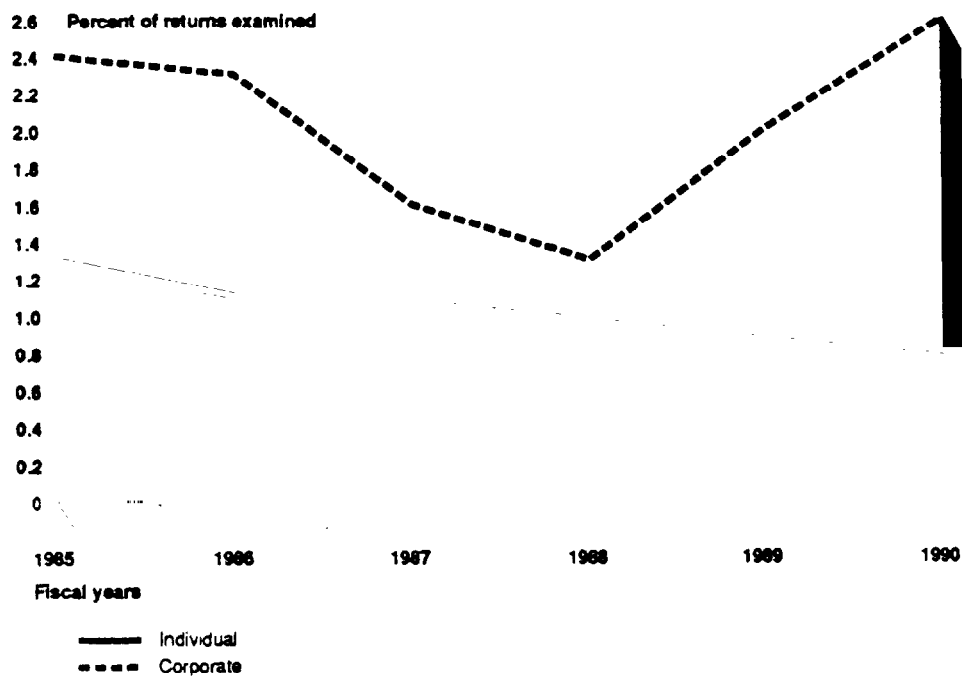
IRS originally sought funding to provide an 85 percent level of service in fiscal year 1992. During the budget formulation process, however, the Treasury Department concluded that "there appears to be an acceptable congressional tolerance of a 75 percent service level in the current budget environment." We do not know what level of service is acceptable to Congress in general or to the Subcommittee in particular. We believe that the acceptability of a particular level of service would depend in a large part on the quality of that service. As we will discuss later, the quality of IRS' service has been improving.

Audit coverage

The fiscal year 1992 budget proposes an increase of 86 examination staff years to enable IRS to increase the number of examinations of high dollar tax returns. This increase, however, will only expand audit coverage by .01 percentage point over the fiscal year 1991 level, thus doing little to reverse the steady decline in audit coverage. Overall, audit coverage has declined from 1.3 percent in fiscal year 1985 to 0.84 percent in fiscal year 1990 and is expected to increase to 0.91 percent in fiscal year 1992. Figure 1 shows the trend in audit coverage since 1985 for individual and corporate returns.

Figure 1:

Individual and Corporate Audit Coverage,
Fiscal Years 1985 Through 1990



Source: IRS Annual Reports

IRS has said that audit coverage does not present a complete picture of enforcement presence, that the decline in audit coverage for individual taxpayers does not take into account contacts through the Information Returns Program (IRP).

IRP, however, has some limitations. It can check only the income and few deductions for which IRS receives information returns. Also, over half of the potential underreporter cases identified by IRP are not productive because of various errors made by taxpayers and employers. Finally, there is no IRP for corporations. In March 1987, GAO testified on the merits of establishing a business information returns program.² While IRP is a valuable supplement to IRS' audit presence, we believe the threat of an audit is a key component to maintaining voluntary compliance. We are concerned that the decline in audit coverage will encourage more people to play the "audit lottery".

THE 1991 FILING SEASON

This year's filing season, like those of the past few years, appears to be proceeding successfully. We assessed various IRS indicators relating to taxpayer service, forms distribution, and returns processing and did our test of the availability of forms and publications. We saw little to give us cause for concern.

²The Merits of Establishing a Business Information Returns Program (GAO/T-GGD-87-4, March 17, 1987).

The one area that was a specific problem last year--taxpayers' ability to get through to IRS over the telephone--is still a concern, although performance appears to have improved somewhat compared to last year.

Telephone assistance

IRS' telephone assistors have continued to improve the accuracy of their answers to test tax law questions this year. It is unclear, however, whether service availability is better or worse than last year--and that is a concern.

Telephone assistors are answering test tax law questions accurately about 81 percent of the time, according to IRS' Integrated Test Call Survey System (ITCSS). This is higher than the 76 percent accuracy rate at about the same time last year and compares favorably with the 1989 filing season accuracy rate of 63 percent. Although still short of the 85 percent goal IRS set for this year, the upward trend is encouraging.

We monitored 327 test calls made by IRS between March 4 and March 15. Our scores of those calls agreed with IRS scores about 95 percent of the time. Because of the consistency of these results, we believe that the 85 percent accuracy rate IRS reported for each of the 2 weeks is reliable. The calls we scored also indicated an accuracy rate of 85 percent. We will

continue to monitor test calls throughout the filing season and will provide the results to the Subcommittee for the hearing record.

We believe that IRS' improvement in test call accuracy over the past 2 years stems primarily from (1) continuing top-to-bottom management emphasis and involvement and (2) development and implementation of standards for evaluating and improving the telephone assistance program. The Commissioner has continued to emphasize improving assistor accuracy and our visits to the field indicate that this emphasis is clearly understood and is being acted on by top field managers, supervisors, and assistors on the line.

Challenges remain, however, particularly in the areas of stabilizing the assistor work force, strengthening training, and incorporating automation into the program.

The absence of agreed-upon standards for evaluating and improving the telephone assistance program has been a matter of concern to us and to IRS for several years. We believe this problem has been overcome. First, the test that GAO and IRS have worked together to develop has established a nationwide standard for assessing call site performance. The results of the test, along with other data, are being used by IRS managers to make resource and workload allocation decisions and to identify and correct

problems in answering taxpayers' questions. The test has also created a healthy competition among the call sites, which we and IRS officials believe is contributing to better performance.

Second, IRS has completed and issued a single nationwide probe and response guide to aid assistors in probing to obtain all the facts needed about a taxpayer's situation before attempting to answer the question. The use of this guide by assistors and supervisors has been made mandatory, and training on how to use it has now been provided. We believe that the development and nationwide use of this guide has already contributed a great deal to IRS' improved accuracy. The guide contains uniform standards for acceptable responses. Thus, it is both a standard and a tool that provides a framework for training, a basis for measuring assistor performance, and a means for identifying and correcting performance problems.

Much has been accomplished in the past few years, but much remains to be done to ensure that taxpayers receive accurate and timely assistance.

IRS continues to experience heavy attrition in its assistor work force, particularly among seasonal employees. IRS estimates it lost about 1,230 seasonal employees during fiscal year 1990. It is working to increase the percentage of permanent employees,

which should reduce turnover and, if successful, reduce the cost of training new employees each year.

GAO and IRS have both studied assistor training during the past year and concluded that the training had improved, but further improvements were needed. We are preparing a report that recommends, for example, that IRS reduce the number of "yes" or "no" questions on classroom tax-law tests and substitute questions to test students' probing skills. We also are recommending that IRS develop an experienced training corps to revise the course material. Currently, revisions to the previous year's training materials are made by staff that have little or no experience in course development. We will continue to monitor IRS' efforts to improve assistor training.

Another important tool intended to improve telephone assistors' performance is the Taxpayer Service Expert Assistance System. This automated system, now incorporated into a broader system called the Taxpayer Service Integrated System (TSIS), was first tested during the 1990 filing season at the Boston call site. As the Subcommittee requested, we have reviewed IRS' progress with TSIS since that time.

IRS needs better information before it can justify investing in TSIS, including information on the specific benefits of

installing it and on whether non-automation alternatives would be more cost effective.

The Boston call site test was inconclusive. The accuracy of responses to taxpayer questions improved at Boston by about 21 percentage points, but other call sites also improved substantially without the automated system. For example, during the 1990 filing season, 23 call sites improved accuracy by more than 10 percentage points through management initiatives and 3 of the 23 sites increased accuracy more than the Boston site.

IRS is testing TSIS again during the 1991 filing season. From these tests it had hoped to get enough information to decide whether to begin installing TSIS at all 32 call sites. The tests are, however, either flawed or limited in ways that will result in information that will not provide an adequate basis for IRS to decide how to proceed. Essentially, the tests are not structured to isolate and measure the system's results separate from other non-automation changes.

Because of concerns similar to ours, the Office of Management and Budget denied IRS' fiscal year 1992 budget request of \$41 million for TSIS. Consequently, IRS recently decided to continue testing during fiscal year 1992, instead of beginning to install TSIS. We endorse this decision and recommend that these tests be constructed to measure specific benefits of the system and that

IRS evaluate at each site whether non-automation alternatives are more cost effective than TSIS.

There is conflicting information as to how successfully taxpayers may be getting through to IRS this year compared to last. Using IRS data on the number of calls received and answered, we computed an answer rate of 42 percent as of March 9, 1991, compared to 34 percent last year. ITCSS statistics, however, show that for the week ended March 16, IRS' test callers were able to get through on their first call only 38 percent of the time, which, on its face, looks like a considerable drop off in performance from last year. At the same time last year, IRS' test callers got through 47 percent of the time on their first attempt.

Fewer taxpayers are calling IRS' toll-free lines and IRS added resources to increase the availability of telephone service. As of March 9, 1991, IRS statistics show that taxpayer demand for telephone service was running 7 percent below the demand IRS expected for 1991 and 4 percent below actual 1990 demand. In part because IRS estimated that demand for toll-free telephone assistance would increase 10 percent between fiscal years 1990 and 1991, it purchased new telephone equipment, increased the number of new phone lines at its toll-free sites by 12 percent, and increased the number of telephone assistor staff hours by almost 7 percent.

We asked IRS taxpayer service officials why, in light of the lower-than-expected demand this year and the additional resources, telephone availability was not any better. They said that the toll-free sites were not using all the allocated staff so as to be able to meet a pick-up in demand. IRS staffing levels bear this out. As of March 9, 1991, IRS had about 6 percent fewer staff devoted to taxpayer service functions than at the same time in 1990. The officials said they were encouraging the toll-free sites to increase their service levels, which should make it easier for taxpayers to reach IRS in the coming weeks.

Forms and publications

In light of IRS' success in improving the availability of tax materials in recent years, we reduced the number of walk-in site visits and mail and phone orders made to monitor the 1991 filing season. Our visits to walk-in sites and the results from our mail and phone orders indicate that tax materials are readily available to taxpayers this year.

Between February 21 and March 1, 1991, we visited 10 walk-in sites in 6 states and the District of Columbia to check on the

availability of 87 forms and publications that all walk-in sites are required to stock. Six sites had all the required items, 3 sites were missing 1 item each, and 1 site was missing 2 items. This compares favorably with last year's visits to 13 sites between January 22 and February 26 when we checked the availability of 82 mandatory items and found that 1 site was missing 8 items, 2 sites were missing 6 items, 9 sites were missing between 1 and 5 items, and 1 site was missing nothing.

Taxpayers can also order tax materials by mail or phone from one of IRS' three distribution centers. This year, we ordered forms and publications from two centers. Between February 12 and February 28, we placed 22 mail and phone orders. Each order was for 4 items selected randomly from IRS' list of 87 mandatory items. As of March 15, we had received 82, or 93 percent, of the 88 items ordered. We received 73 percent of our mail-ordered items and 100 percent of our phone-ordered items within the 2 weeks that IRS tells taxpayers to expect delivery. We received 88 percent of the mail-ordered items in 16 days.

IRS' own tests of the availability of tax materials show somewhat mixed results. This year, IRS's objective is to accurately process at least 94 percent of its phone and mail orders. In order to determine whether it is meeting this objective, IRS staff have analyzed 846 test orders made between November 26, 1990, and February 23, 1991. Those results show that IRS

accurately filled 85 percent of its phone orders and 95 percent of its mail orders. An IRS official in the forms and publications distribution area explained that most of the errors on the phone orders were caused by sending too many or too few of the requested items.

As was the case with taxpayers seeking answers to tax law questions, taxpayers attempting to order tax materials by phone are probably having less trouble reaching IRS this year. As of March 9, 1991, according to IRS' statistics, the three distribution centers had answered about 2.9 million or 54 percent of taxpayers' calls, compared to 2.7 million or 46 percent of the calls at the same time last year.

Returns processing

As of March 9, 1991, according to various IRS indicators, IRS has done a good job processing tax returns and managing service center inventories. Two patterns have emerged. More taxpayers are filing electronically and more taxpayers who file paper returns are using form 1040A.

As of March 9, 1991, IRS had received 45.0 million tax returns, about the same number as this time last year, and had processed about 72 percent of these receipts, down about 1 percentage point from last year.

More taxpayers are filing electronically this year. As of March 9, 1991, IRS had received 5.9 million electronically filed returns--81 percent more than last year. IRS believes that electronic filing offers considerable advantages to taxpayers and IRS in the form of faster refunds and fewer processing errors. We are currently reviewing IRS' strategies to increase the number of electronic filers.

Another change this year is that more taxpayers are using form 1040A to file their returns. This is occurring because IRS revised the form to allow taxpayers to report pension income. IRS estimates that about 4.5 million more taxpayers will be able to reduce their paperwork burden by filing form 1040A. Through March 9, 1991, IRS statistics show that 952,000 more taxpayers have filed 1040A, about 9 percent more than last year.

Over the last several years, IRS has begun to establish specific objectives for service centers to use in managing their inventories. These inventories, which can be thought of as "things gone wrong" or needing special attention, have steadily decreased over this period. Those decreases have continued in 1991. As of March 9, decreases for six of the seven inventories ranged from 1.6 percent to 33.1 percent below 1990 levels. The seventh inventory--rejects--had increased 16.2 percent, which IRS attributed to a procedural change.

Errors made in processing tax returns

In the past, we have cited IRS statistics on the percentage of returns involving errors made either by the taxpayer in filling out the return or by IRS in processing it and have pointed out that many of the same types of errors are made year after year. In 1990, IRS began studying several types of recurring errors in the hopes of having some solutions in place for the 1991 filing season. Included among those studies were such problem areas as the earned income credit and the transcription of incorrect social security numbers during processing. As of February 1991, most of those studies had been completed. IRS says that it has already implemented some of the solutions recommended by the study teams and is considering further actions for implementation in 1992. The solutions already implemented generally involved increased training, changes to the Internal Revenue Manual, and changes to training materials. Other changes that require more study or that cannot be effectively implemented until 1992 involve such things as changes to forms.

We do not know whether the implemented changes have had any effect on reducing the incidence of errors this year. IRS' list of the most frequently-occurring errors this filing season, however, still includes several that have made the list in past years. For example, IRS data entry staff are not properly

recording dependent designation status for tax purposes. Additionally, taxpayers continue to experience problems in computing and correctly claiming the earned income credit.

In a report we are issuing today to the Subcommittee, we also raise questions about the validity of IRS' error rate data as an indicator of its returns processing performance.³ We question that data because it includes errors made by taxpayers and counts as errors things that are not errors. We are recommending, among other things, that IRS use an indicator to measure returns processing quality that specifically identifies the extent to which errors are being made by service center staff in processing the returns. That report also includes information on the quality of (1) service center correspondence with taxpayers about adjustments to their accounts and (2) notices IRS sends taxpayers informing them of changes made to their returns during processing.

- - - - -

That concludes my prepared statement. My colleagues and I will be happy to respond to any questions.

³Tax Administration: IRS Needs to Improve Certain Measures of Service Center Quality (GAO/GGD-91-66, March 20, 1991).

Ordering Information

Copies of GAO reports cited in this statement are available upon request. The first five copies of any GAO report are free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.