

**GAO**

United States General Accounting Office

Report to the Chairman, Committee on  
Governmental Affairs, U.S. Senate

June 1991

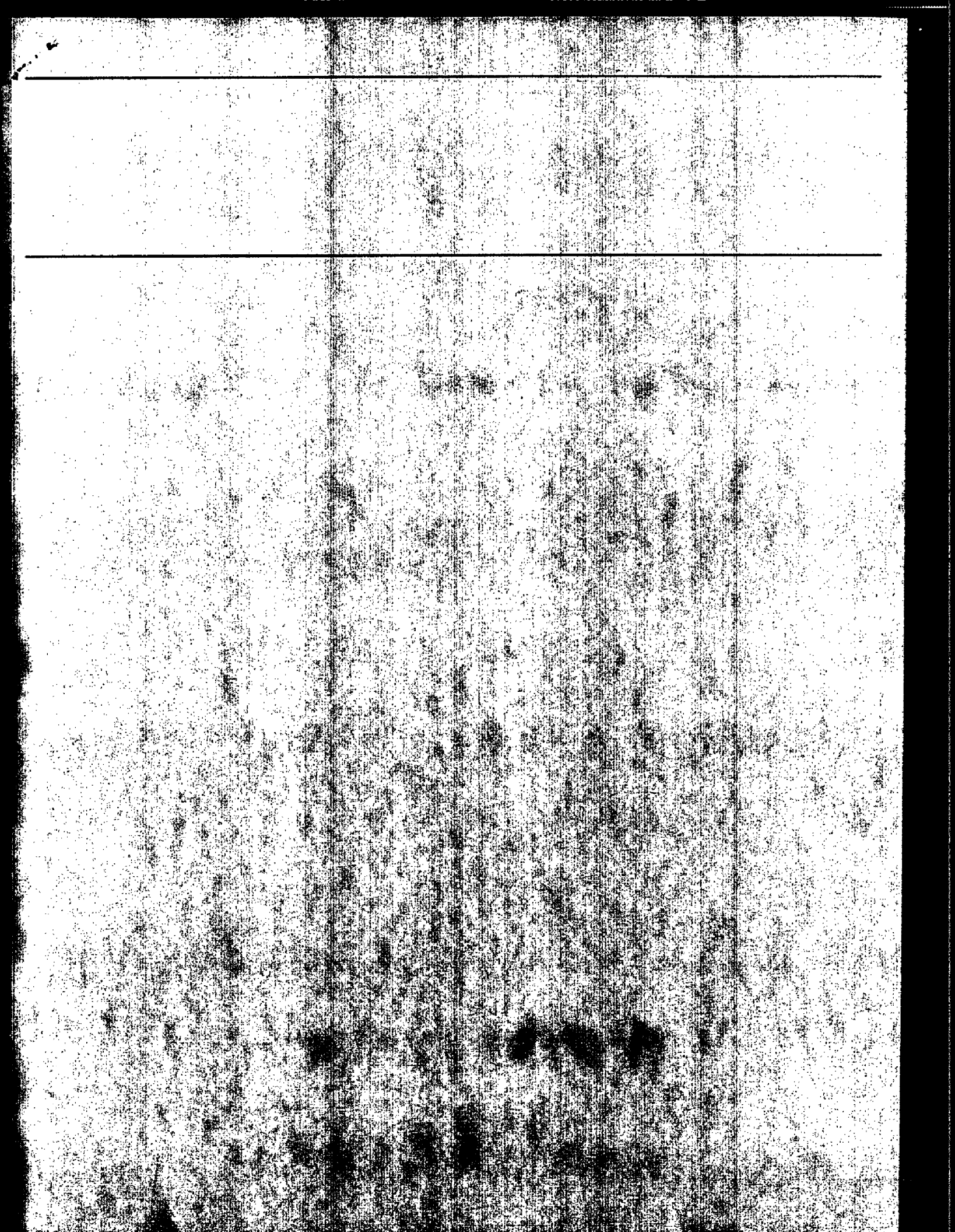
# COLLECTING BACK TAXES

## IRS Phone Operations Must Do Better



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Relations.



Information Management and  
Technology Division

B-243109

June 18, 1991

The Honorable John Glenn  
Chairman, Committee on  
Governmental Affairs  
United States Senate

Dear Mr. Chairman:

This report responds to your request for the results of our review of the Internal Revenue Service's (IRS) Automated Collection System (ACS).

Taxpayers owed over \$96 billion in delinquent taxes, penalties, and interest at the end of fiscal year 1990. Because the amount of delinquent taxes keeps growing, we looked at one method IRS uses to collect taxes, ACS. Simply put, ACS is an automated system that IRS employees use to telephone delinquent taxpayers, receive calls from taxpayers, and retrieve information from the taxpayers' accounts.

After ACS was phased in during 1983 and 1984, the 21 ACS offices (referred to as call sites)<sup>1</sup> were able to do the work of the 73 offices they replaced with about half as many staff. IRS officials believe that ACS is a success and a great improvement over the manual system it replaced. In fiscal year 1985, ACS' first full year of operation, dollars collected per staff year more than doubled. In fiscal year 1990, the call sites collected about \$2.6 billion in back taxes and assessed another \$1.6 billion to be collected later.

## Results in Brief

While ACS is working better than the manual system it replaced, it has not shown any significant improvement since 1985 and is not working as well as it should. More automation can help by dialing numbers automatically and forwarding answered calls to call site employees, or by screening incoming calls and routing them to the right IRS office. This additional automation could free up employees to collect more taxes.

But adding automation will not solve IRS' major problems. Calls are not being made to taxpayers when they are likely to be home because most call sites are not open evenings and weekends as they should be. Call site staff spend too much time doing things other than working on tax

<sup>1</sup>Two additional remote call sites have been opened since 1985. We will henceforth refer to 23 call sites.

cases. During fiscal year 1990, call site employees spent 52 percent of their time on leave, in training, managing, or working on administrative matters, rather than working on collecting delinquent taxes. More time spent on collecting taxes, in addition to an automation improvement we identified, could translate into additional collections of \$460 million per year.

Further, IRS' organization makes it hard for IRS headquarters to fix these problems. Its organization has led to different ways of operating the call sites and to limited communication between the sites and headquarters, including basic and consistent ways to measure call site performance.

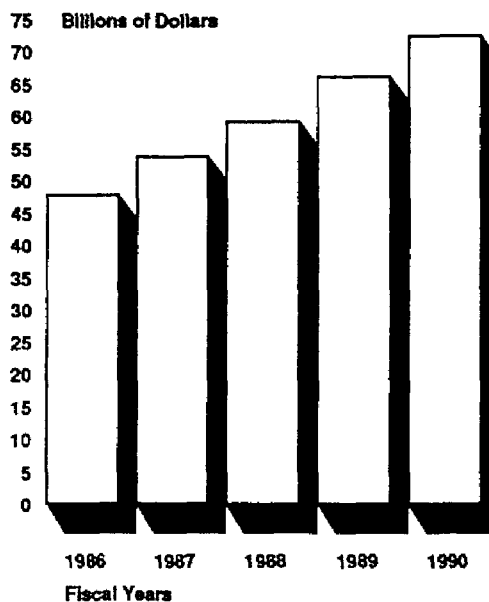
IRS has increased ACS staffing by 200 staff years to 2,900 for fiscal year 1991 and anticipates another increase to slightly over 3,000 staff years for fiscal year 1992. IRS also has a number of ongoing studies and evaluations of call site operations, has recently released a long-range plan to consider alternative directions for the call sites over the next 2 to 6 years, and has begun developing indicators to measure call site productivity and effectiveness. But adding more people or more automation will not solve all the problems facing the call sites. These problems can be solved only by IRS analyzing call site operations, developing the right kind of data to measure and compare performance, and recognizing that it may need to fundamentally change its operation. Because private industry is experienced in collecting debt, we are recommending, among other things, that IRS use private collection companies to study call site operations and identify specific management, technological, operational, and organizational changes that would improve the collection of back taxes.

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## Background

IRS collected about \$1 trillion in taxes in 1989. However, as of September 30, 1990, taxpayers owed \$72.2 billion in back taxes and an additional \$24 billion in interest and penalties. As indicated in figure 1, the amount of delinquent taxes owed has been steadily increasing.

**Figure 1: Assessed Delinquent Taxes**  
(Billions)



IRS uses a three-step process to collect taxes owed by delinquent taxpayers. First, it sends a series of written notices to the taxpayer. If the taxpayer does not respond in 6 months, then the case is sent to a call site where the taxpayer is called to try to settle the case, or the taxpayer calls IRS in response to liens or levies imposed by IRS on the taxpayer's assets. If IRS cannot resolve a case through the call sites, the case will either be (1) placed in the "queue,"<sup>2</sup> or (2) sent to a field office. Field office revenue officers then visit the taxpayer to collect the taxes owed. In 1989, IRS collected about \$23.5 billion in back taxes using this three-step process.

This report discusses the second collection step, calling the taxpayer. Originally, this step was done manually. IRS employees in 73 collection offices had a stack of files with information on delinquent taxpayers and these employees tried to contact taxpayers to arrange payment. During 1983 and 1984 IRS installed ACS, which replaced the collection offices with 21 call sites and about half as many staff. ACS initially cost about \$137 million to install and costs about \$112 million to operate every year. In fiscal year 1990, the call sites, using about 2,700

<sup>2</sup>The queue is a group of lower priority cases that are only worked on by revenue officers if they have the time. As of August 1990 there was about \$1.7 billion in the queue and the average taxpayer owed about \$5,000.

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employees, collected about \$2.6 billion in back taxes and assessed another \$1.6 billion to be collected at a later time.

ACS is a tax collection system made up of computers and terminals at IRS' 10 service centers and 23 call sites. At each call site, computer terminals are used to dial the taxpayer's phone number and display the taxpayer's file on the screen so the call site employee can determine how best to collect the taxes owed.<sup>3</sup> For example, after contacting the taxpayer, employees might obtain information about the taxpayer's financial history to identify assets that the IRS can levy, such as bank accounts and other financial assets, as well as finding out where the taxpayer works, to see if a payroll deduction can be agreed to, if necessary.

IRS collection officials believe ACS is a success and a great improvement over the previous manual system. In fiscal year 1985, ACS' first full year of operation, dollars collected per staff year rose to about \$895,000, a 125 percent increase over previous methods. Fiscal years 1986 and 1987 were even better at \$1.2 million per staff year.

However, IRS data indicate that ACS has not shown significant improvement from fiscal year 1985 through fiscal year 1990. Since then, call site employees have consistently closed cases at a rate of about 600 per staff year. Also, the total number of phone calls made and received during this period hovered near 8.4 million, a 13 percent decrease from 1985's 9.7 million, even though call sites increased staff by almost 20 percent in 1987. Dollars collected per staff year fell to about \$976,000 for fiscal year 1990,<sup>4</sup> a 19 percent decrease from fiscal year 1986 and 1987. Meanwhile, the inventory of call site tax collection cases has steadily increased since 1985 from just under 575,000 to about 950,000 in September 1990.

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## Problems at Call Sites

Too many call sites are not providing adequate service to taxpayers who call them. Also, many call sites are lowering their chances of contacting high priority taxpayers because call sites are not open as many hours as envisioned by IRS policy. Finally, call site employees spend too much time doing things other than collecting taxes. Collection practices and

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<sup>3</sup>Call sites also use ACS to call taxpayers who fail to file tax returns. This report focuses on how call sites collect taxes owed.

<sup>4</sup>Dollars collected per staff year for fiscal years 1988 and 1989 were substantially lower than 1986 and 1987 because certain high-dollar cases bypassed the call sites and went directly to revenue officers in the field. However, IRS officials told us that fiscal years 1985, 1986, 1987, and 1990 data were comparable.

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technologies being used by states and private collection agencies could help IRS overcome these problems.

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## Too Many Taxpayers Who Call Do Not Get Through

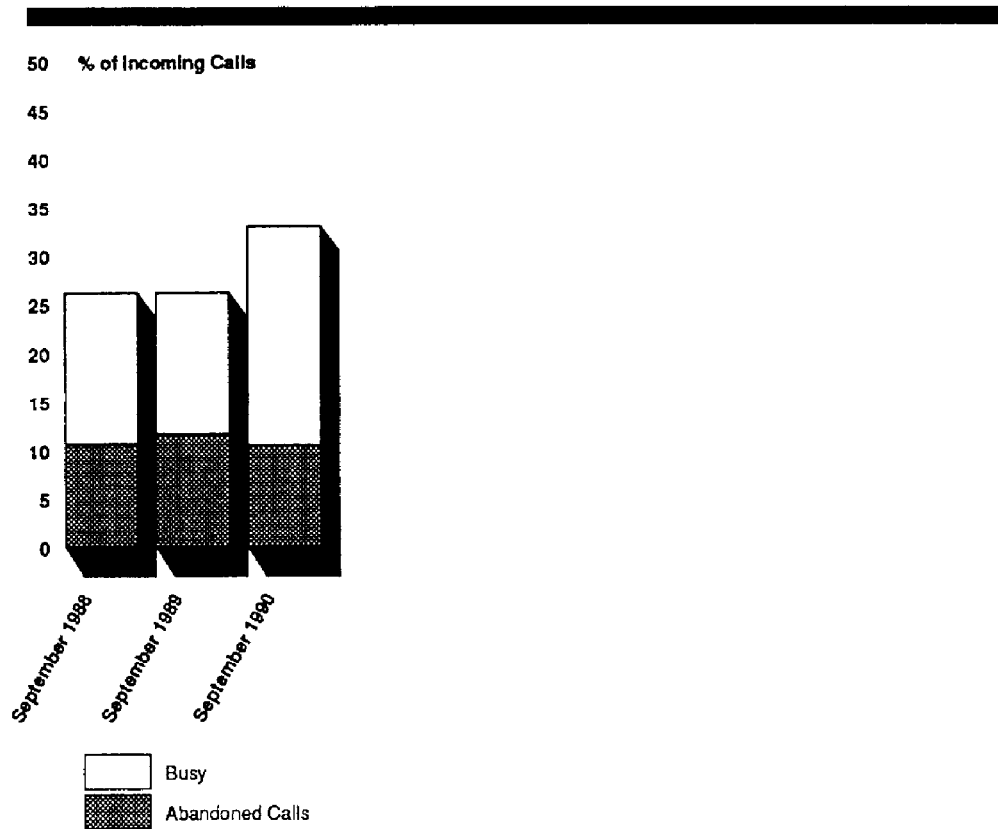
Nationwide, call sites receive more calls than they make, and at some call sites incoming calls account for 60 to 70 percent of total calls. Call sites place a high priority on answering incoming calls from taxpayers because these people are showing an interest in resolving their case and because taxpayers are entitled to prompt, courteous, and impartial treatment. In fact, many sites encourage incoming calls by first contacting taxpayers through letters or a computer phone call telling the taxpayer to contact a call site.

However, too often taxpayers get a busy signal when they call or give up after being put on hold for too long. Specifically, IRS data from 10 call sites<sup>6</sup> for September 1990 showed that about 22 percent of all incoming calls got a busy signal and over 10 percent of all callers hung up after waiting on hold. This means that the IRS did not respond to almost one-third of the calls received. Figure 2, which shows data for the month of September for the last 3 years, indicates that busy signals and abandoned calls have been a problem at these 10 sites for a few years, and the problem worsened in 1990.

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<sup>6</sup>These sites were chosen because the data they reported appeared to be complete and had no obvious errors, in contrast to the data from the other 13 call sites.

Figure 2: Call Sites' Service of Incoming Calls



The problem may be even worse at other times of the year. Data for these same sites for July 1990 shows about 41 percent of incoming calls received busy signals and about 9 percent were abandoned. Comparable data for April 1990 was 44 percent busy and 8 percent abandoned. As table 1 shows for April 1990, busy signals and abandoned call problems were particularly bad at certain call sites such as Newark, Buffalo, San Francisco, and Boston. The table also shows that other sites, such as Denver, Houston, and Dallas had a lower percentage of busy signals.



**Table 1: Busy/Abandoned Calls at Selected Sites for April 1990**

Call Site	Percent Busy	Percent Abandoned	Total
Newark <sup>a</sup>	86.6	1.2	<b>87.8</b>
Buffalo	69.0	4.0	<b>73.0</b>
San Francisco	46.0	12.0	<b>58.0</b>
Boston	53.0	4.0	<b>57.0</b>
Indianapolis	22.0	22.0	<b>44.0</b>
Chicago	25.0	9.0	<b>34.0</b>
Detroit	13.0	18.0	<b>31.0</b>
Denver <sup>a</sup>	0.0	16.0	<b>16.0</b>
Houston	3.0	9.0	<b>12.0</b>
Dallas	5.0	5.0	<b>10.0</b>

<sup>a</sup>Newark data are for only 2 weeks, and Denver data are for only 3 weeks because the call counting mechanism did not operate the entire month.

## Many Call Sites Are Not Operating When They Should

Outgoing calls are also important to call site operations because ACS assigns the calls to be made based on the priority and age of the case in the system. While the high volume of incoming calls has limited the ability of sites to call taxpayers, the inability or unwillingness of call site employees to work evenings and Saturdays also reduces their ability to contact taxpayers. In contrast, state and private collection agency officials we talked to typically make calls until 8 p.m. during the week and for several hours on Saturdays. They and the American Collectors Association<sup>6</sup> generally agree that these hours are productive in reaching people because most people work during the day. They also believe that taxpayers contacted in the evening are more likely to pay because those reached during the day are likely to be out of work.

IRS policy states that call sites should be open 64 hours a week—from 8 a.m. until 8 p.m. weekdays and 4 hours on Saturday. Despite this policy, as of October 1990 only 10 of the 23 call sites were making outgoing calls 64 hours a week. The other 13 call sites reduced their evening and Saturday hours. They were open from 42.5 to 60 hours a week and averaged 48.7 hours making calls.

IRS officials stated that evening and Saturday calls are primarily made to individual (nonbusiness) taxpayers. Therefore, call sites that are not open evenings or on Saturdays miss this chance to contact individual

<sup>6</sup>The American Collectors Association is a trade association representing over 3,000 collection agencies.

taxpayers. These taxpayers account for about 75 percent of the growth in taxes owed since 1986.

IRS officials said that all call sites have not been able to work a 64-hour schedule because (1) managers and employees will not work evenings and Saturdays, (2) there are not enough employees, and (3) they cannot hire new employees due to non-competitive salaries.

States and private collection agencies have taken steps to ensure proper staffing of their call sites because staffing is a problem in the collection business, whether private or government. First, they use automated dialing systems to make calls. The systems can tell when someone answers the phone. When this happens, the call is switched to a collections employee, which allows collectors to spend all their time on "live" calls. Also, to find enough staff, agencies locate call sites near universities, military bases, or in areas of high unemployment. To staff evening hours, agencies use flexible work schedules, more part-time help, and incentive pay.

### Call Site Staff Spend Too Much Time on "Overhead" Activities

Call site employees record that they spend time either working on collecting back taxes and securing delinquent returns, or on "overhead," which includes time spent on leave, in training, managing, or working on administrative matters. For fiscal year 1990, employees at the 23 call sites—on the average—charged 52 percent of their time to overhead. Table 2 breaks out the percentage of time call site employees charged to overhead categories for the last 6 fiscal years.

**Table 2: Percentage of Time Charged to Overhead Categories by Call Site Employees**

Overhead Category	Fiscal Year					
	1985	1986	1987	1988	1989	1990
Management	14.2	14.8	14.0	14.3	14.6	14.7
Administrative	13.5	12.8	11.6	12.2	12.4	13.3
Training	9.8	9.2	13.8	10.6	8.2	12.7
Leave	10.5	11.6	10.8	11.0	12.2	11.5
<b>Totals</b>	<b>48.0</b>	<b>48.4</b>	<b>50.2</b>	<b>48.1</b>	<b>47.4</b>	<b>52.2</b>

For fiscal year 1990 one call site reported an overhead rate of 65 percent and 12 sites reported overhead rates over 50 percent. In other words, at a given time, more employees were managing, on leave, in training, or working on administrative matters than were working on delinquent tax accounts.

IRS officials agree that overhead is too high. They said that, although there is no written IRS standard, they would like to see the nationwide overhead rate at or below 40 percent. However, none of the call sites had a rate that low in fiscal year 1990 (Detroit came closest at 41 percent). These officials stated that overhead tends to be somewhat high at the call sites because of the high turnover and the amount of training new employees need.

Private collection agencies' experience with overhead can not be directly related to call site operations because IRS collections work (1) is more difficult, (2) requires more training due to the complexity of the tax laws, (3) has different leave policies, and (4) has union considerations. However, officials of one private collection agency that has about 2,500 employees at nearly 30 sites said they have a goal of 19 percent of call site time spent on these four overhead categories. They did not think IRS could get overhead below 25 percent.

Management is one overhead category that is higher than industry experience. Call site management includes supervision of those employees who talk to delinquent taxpayers as well as supervisors who have very little, if any, contact with these employees. These supervisors would be concerned with such things as training, quality control, and personnel. Private collection companies we talked to said that, on average, 5 to 10 percent of call site time is charged to management. In fiscal year 1990, IRS call sites averaged 14.7 percent of their time charged to management; percentages ranged from 9.9 to 19.9 percent. Eleven call sites reported over 15 percent of their time charged to management. While private industry officials told us they average one manager for every 8 to 15 collectors, IRS call sites averaged one manager for every 6 collectors as of September 1990.

One percent of call site staff time in fiscal year 1990 represented about 25 staff years. According to IRS data, 25 staff years could close about 22,000 tax collection cases, resolve about \$110 million of their receivables (about 2.3 percent of the ACS tax collection inventory), and actually collect about \$33 million in back taxes. In other words, if call site overhead time charges had been held to 40 percent in 1990, instead of the 52 percent reported above, IRS might have been able to collect about \$395 million more than it did.

## Increased Automation Can Help Overcome Call Site Problems

Automatic dialing systems could allow call site employees to make more calls by reducing the time employees spend waiting for calls to be answered. These systems can dial phone numbers and refer only answered calls to the operators. According to an IRS systems analyst, call site employees spend about 3 minutes on each unanswered call. Since about half of all calls go unanswered, and call sites make about 4.1 million calls a year, employees could be wasting over 50 staff years making calls that are not answered; staff years that could be used to collect another \$65 million.

IRS does use automatic dialing systems, called telecomputers, at its Manhattan and Houston call sites. The Manhattan telecomputer makes calls for the Boston, Buffalo, Manhattan, and Newark call sites, while the Houston telecomputer services Houston, Dallas, Denver, and Oklahoma City. However, the problem with these systems is that when the telecomputer calls are answered, an IRS employee verifies that they are talking to the taxpayer and then plays a recording telling the taxpayer to contact a call site. It would be better if, when the telecomputer reaches someone, the call is switched to an IRS employee to resolve the case while the taxpayer is still on the phone. Simply telling the taxpayer to contact a site is ineffective; sites are already receiving more calls than they can handle, and the taxpayer may only get a busy signal or be placed on hold.

Automation could also help the incoming call problems at call sites. Call sites currently use employees, called frontiers, to receive and direct incoming calls. Instead, call sites could use automated systems that ask callers to push buttons on their touch-tone phones based on the information needed. The call could then be automatically sent to the person that handles that area. At a call site, such a system could (1) help screen out non-ACS calls and route them to the appropriate IRS department, or (2) automatically route calls to operators and display taxpayer case information on the operators' screens using the taxpayer's social security number.

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## Making Corrections Will Be Difficult Because of the Way IRS Is Organized

Addressing call site problems will require increasing the automation, the timing and number of outgoing calls, and the time call site employees spend trying to collect back taxes. Hiring more staff might also help, but existing problems suggest that some sites may not benefit solely from adding more staff.

IRS' management structure does not lend itself to correcting these basic problems. The Assistant Commissioner (Collection) in IRS headquarters has functional responsibility for collecting IRS' accounts receivable, but has little or no direct control or authority over call site operations. The Assistant Commissioner sets policy, evaluates the effectiveness of programs, and recommends corrective action. Seven Regional Commissioners are responsible for policy and program execution and they supervise the District Directors who operate the call sites. The Assistant Commissioner and the Regional Commissioners are basically on the same organizational level, in that they report to the same IRS office.

Each of the seven Regional Offices has responsibility for several call sites and this has led to a lack of uniformity in operations. For example, call sites maintain different hours of operation, despite the Assistant Commissioner's policy that sites should be open 64 hours a week. Also some call sites make virtually no outgoing calls, but instead encourage incoming calls by sending letters to taxpayers or using telecomputers.

This management structure also inhibits direct communication between the Assistant Commissioner's office and the call sites. Officials of the Assistant Commissioner's office said they are not permitted to talk directly to the call sites even for basic information requests. Instead they must first deal with the responsible Regional Office. They also told us that the lack of uniformity in call site operations makes it difficult to measure and compare call site productivity. The Assistant Commissioner told us that the people in his office should not feel prohibited from talking directly with call sites if they have a need.

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## IRS Actions to Improve Call Site Performance

IRS increased call site staffing by 200 staff years to 2,900 for fiscal year 1991 and anticipates another increase to slightly over 3,000 staff years for fiscal year 1992. The Assistant Commissioner (Collection) allocates resources to the call sites. Currently, resources are allocated based on the projected inventory of cases at each site and the amount of time each site has typically needed to complete a case. Ideally, staff are allocated to stay current with projected work loads and to reduce inventory by 10 percent. IRS officials who determine these allocations for the

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Assistant Commissioner said that they expect all call sites to be open 64 hours each week with the additional staff.

In allocating these resources, the Assistant Commissioner does not use standards for productivity or overhead to measure call site efficiency. As part of the fiscal year 1991 annual business plan<sup>7</sup> for collection, certain baselines are being developed to measure call site timeliness, efficiency/productivity, inventory turnover, and customer service (percentage of busy/abandoned calls). IRS headquarters officials believe that these baselines will help them better measure call site performance.

The call sites have been reviewed by IRS' internal auditors on a national, regional, and individual site basis from time to time in the last few years. In response, the Assistant Commissioner (Collection) is conducting internal evaluations and studies of the increased use of remote sites, optimum inventory levels for call sites, incoming/outgoing call mix, and better training for call site operators and managers. Also, an evaluation of the telecomputer sites is being conducted and a pilot test of an automatic answering system is being considered. Finally, the Assistant Commissioner has recently released a long-range plan with an objective to develop alternative directions that can be taken by the call sites over the next 2 to 6 years.

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## Use of Private Collection Companies' Experience May Help

There are over 6,000 large and small companies that specialize in collecting debts. Most have fewer than 50 employees but many have hundreds of employees and one of the nationwide companies we talked to had over 2,500 employees. Many of the larger companies use telephone calling systems extensively in their work.

Call site operations could be improved from the experiences of private collection companies. IRS, for example, could study how private companies use technology, how they organize and locate their offices, and how they measure performance. IRS also could contract with one or more of these companies to help in evaluating ACS operations as long as taxpayer information was properly protected. However, IRS is prohibited by law<sup>8</sup> from using private collection companies to collect delinquent taxes and

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<sup>7</sup>Annual business plans are developed for each IRS functional area, such as collection or taxpayer assistance, as one component of IRS' strategic management process. Other components of this process are a 5-year strategic business plan, fiscal year critical success factors, and annual business reviews.

<sup>8</sup>31 U.S.C. section 3718(f) and 26 U.S.C. section 6103 (1988)

is limited as to the amount of tax return information that can be disclosed to a private collection company.

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## Conclusions

ACS is an improvement over the manual system it replaced. But IRS needs to do a much better job of running its sites if it is going to collect more money owed to the government. The problems with call site operations are fundamental. IRS could better meet its mission by having call sites stay open when good business practice says they should be open; answer the phone after telling customers to call; and reduce the time employees spend doing things other than collecting taxes.

Technology alone will not solve these problems. Although increasing automation could improve the system's performance, real progress can only be made if IRS reevaluates call site problems with a new and fresh perspective. This will not be easy because of IRS' organization, which has led to different ways of running the call sites, and to limited communication between the sites and headquarters, including basic and consistent ways to measure call site performance.

IRS needs to analyze call site operations, get better data to measure performance, and explore fundamental changes to the way it collects taxes through ACS. This analysis needs to include management, technology, operations, and organization.

Private industry, with its vast experience in collecting debt, could help. Under current law, IRS cannot involve private companies in collecting taxes, but it can learn from them and thereby improve call site operations. Automation improvements and the best business practices of private collection agencies can be identified and compared with call site experience to help IRS establish a better telephone-based tax collection operation.

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## Recommendations

Because of their potential for increasing the collection of back taxes we recommend the Commissioner implement at all sites

- automation for making outgoing calls and for receiving and directing incoming calls, and
- standard hours of operation.

We also recommend that the Commissioner expeditiously establish measurements, such as a target overhead rate, to evaluate the performance

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of call sites. Private collection agencies should be used to help do this, and to look at call site operations and identify specific management, technological, operational, and organizational changes that would improve the collection of back taxes.

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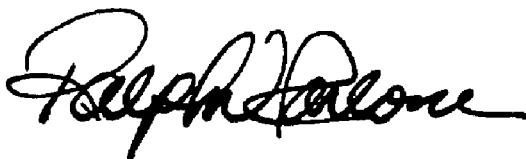
## Agency Comments and Our Evaluation

In its May 31, 1991, comments on our report, IRS agreed with all report recommendations. The letter pointed out that many of the report findings parallel the needs identified in IRS' ongoing strategic and planning efforts. Detailed IRS comments are contained in appendix II.

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As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until June 25, 1991. At that time we will send copies to the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and to other congressional committees interested in the matters discussed above. This report was prepared under the direction of Howard G. Rhile, Director, General Government Information Systems. He can be reached at (202) 275-3455. Major contributors to this report are listed in appendix III.

Sincerely yours,



Ralph V. Carlone  
Assistant Comptroller General





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## Abbreviations

GAO	General Accounting Office
ACS	Automated Collection System
IMTEC	Information Management and Technology Division
IRS	Internal Revenue Service



# Objectives, Scope, and Methodology

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Our objectives were to assess (1) how well the ACS system is working in the collection of accounts receivable, and (2) whether automation could help to improve ACS operations.

Our review was conducted at IRS headquarters; IRS regional office in New York; IRS district offices in Boston, Massachusetts, Portsmouth, New Hampshire, and Baltimore, Maryland; IRS field offices in New Hampshire, Massachusetts, Maryland, and Washington, D.C.; and IRS' Andover, Massachusetts, service center. We obtained information from all the ACS call sites with the cooperation of IRS national office collection officials. We also talked to IRS officials in Manhattan and Houston about the use of their telecomputer systems.

We interviewed state tax collection officials in South Carolina, Illinois, and Minnesota, states that were identified for us by the Association of State Tax Administrators as having renowned tax collection systems. We also interviewed officials at five companies that have collection operations; two companies that have sold computerized collection systems to states and private collection companies; and the American Collectors Association, which represents over 3,000 collection agencies.

We observed the automated collection system at the Boston call site to identify how the collection process works and how a call site is managed. The discussions with state and collection company officials gave us information on the characteristics of collection practices and technologies currently in use. We discussed IRS' plans to improve the process with responsible agency officials to determine which needs IRS is addressing and those which it is not.

Our review was conducted between June 1990 and February 1991, in accordance with generally accepted government auditing standards.

# Comments From the Internal Revenue Service



COMMISSIONER

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

MAY 31 1991

Mr. Howard G. Rhile  
Director, General Government  
Information Systems  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Rhile:

We have reviewed your recent draft report entitled, "Collecting Back Taxes: IRS Phone Operations Must Do Better."

We generally agree with the report recommendations for improving the Automated Collection System (ACS). Many of the report findings parallel needs identified in our ongoing Strategic Planning process, Collection's Planning for Quality effort, and ACS long-range plans and management initiatives.

Since 1985, ACS has been a high-yielding, revenue-producing collection system which has greatly increased the dollars collected from delinquent accounts. For example, Tax Delinquent Account (TDA) collections have increased from 1.5 billion in FY 1985 to \$2.6 billion in FY 1990. Annual TDA dispositions have increased over 40 percent from 1.2 million to 1.7 million during the same period, while dollars collected per staff year have increased over 9 percent from \$895,000 to \$965,000. In addition, our Tax Delinquency investigations (TDI) program has also shown significant improvements. Dollars assessed per TDI staff year have increased nearly 300 percent from \$655,000 in FY 1985 to \$2.5 million in FY 1990.

One of the reasons ACS has been successful is that we are constantly enhancing the system's capabilities. Since the nationwide implementation of ACS in FY 1984, we have upgraded the computer and telephone equipment, automated supporting processes, such as liens, levies and substitute for returns and created two remote sites to handle increased workload.

Current and planned modernization provides an opportunity to manage ACS even better. Current improvements include expanding staffing and equipment where needed, requiring 64 hour per week operations to maximize use of equipment and improve availability to taxpayers, implementing the connectivity project which will provide employees with access to the latest and most accurate account data, using audio response units to route calls intelligently further improving taxpayer access and customer service, and converting ACS software to run on new mainframe computers.

Appendix II  
Comments From the Internal Revenue Service

-2-

Mr. Howard G. Rhile

Detailed comments regarding the report recommendations are enclosed. We have also enclosed general comments on the report text and additional information regarding ACS improvements.

Best regards.

Sincerely,

  
Fred T. Goldberg, Jr.

Enclosure

IRS COMMENTS ON RECOMMENDATIONS  
CONTAINED IN GAO DRAFT REPORT ENTITLED  
"COLLECTING BACK TAXES: IRS PHONE OPERATIONS MUST DO BETTER"

Recommendation:

Because of their potential for increasing the collection of back taxes we recommend the Commissioner implement at all sites:

- automation to receive and direct incoming calls, and
- standard hours of operation.

Comment:

We agree that our ongoing automation efforts to receive and direct incoming calls more efficiently should continue. We have been working on a new system for the last six months which will include these improvements. We also agree that additional National Office direction is necessary to achieve standard hours of operation (64 hour week). Achieving the standard work week is a major objective of Collection's Annual Business Plan. Progress towards that objective is monitored during National Office and Regional reviews of ACS sites. In addition, the allocation of staffing and resources to field offices is based on the 64 hour work week.

Recommendation:

We also recommend that the Commissioner expeditiously establish measurements, such as a target overhead rate, to evaluate the performance of call sites. Private collection agencies should be used to help do this and to look at call site operations and identify specific management technological, operational, and organizational changes that would improve the collection of back taxes.

Comment:

We agree that our effort to establish meaningful measurements of ACS productivity and levels of service should continue. Baselines are being developed this year to measure inventory turnover, percentage of productive hours, and time to close a case. We also agree that private collection companies should be invited to study internal IRS operations. We will explore the feasibility of conducting a joint study of our ACS operation with private firms as a further way to improve our collection of delinquent taxes.

Appendix II  
Comments From the Internal Revenue Service

-2-

GENERAL COMMENTS

Now on p. 1.

Page 2 - "While ACS may be working better than IRS' manual system, it has not shown any significant improvement since being installed and is not working as well as it should."

Response: We agree that ACS should and will be improved. Numerous plans and policies are already in place to effect these improvements such as the ACS long-range plan; planning for quality effort; and ACS management initiatives including increasing staffing, opening more satellite locations, and studying equipment and procedures used by private firms.

Now on p. 1.

Page 2 - "More automation can help. For example automated systems could be used to screen incoming calls and then route them to the right IRS office...But adding automation will not solve IRS' major problems. Calls are not being made...when taxpayers are likely to be home because call sites are not open as any hours as they should be...Call site staff are spending too much time (not) working on tax cases...on leave, in training, managing or working administrative matters."

Response: The report does not acknowledge that IRS has been developing for six months a system to screen and route incoming calls. Also, call sites are staffed to cover a 64 hour week, with levels of service specified in the Annual Business Plans. We would agree, however, that more can be done to ensure 64 hour coverage is provided; and, monitoring adherence to the 64 hour week is a major issue in every National Office review of ACS. The allocation of staffing and expansion equipment is based on 64 hour workweeks.

Lastly, there are factors not present in private industry that add to our overhead such as training, especially as it relates to complex tax law, and knowledge of two computer systems. Also, there are collective bargaining considerations, leave policy, and the inadequacies of the current pay system which doesn't provide sufficient incentives for night and Saturday work.

Now on p. 2.

Page 3 - "IRS has given the call sites an additional 297 staff years in fiscal year 1991 and ACS officials hope to get another 203 staff years in fiscal year in 1992."

Response: In fiscal years 1990 and 1991, IRS allocated to ACS operations 2,700 and 2,900 staff years respectively. We anticipate an additional increase to slightly more than 3,000 staff years in FY 1992.



Appendix II  
Comments From the Internal Revenue Service

-3-

Now on p. 2.

Page 3 - "...We are recommending...that IRS use private collection companies to study call site operations and identify specific management, technological, operational, and organizational changes that would improve the collection of back taxes."

Response: Previous contacts with the collection industry have shown that our system, its needs, and working parameters are vastly different and more complex than private industry. We do agree, however, that benefits can accrue from studying private procedures and systems. We will continue to study the technology and procedures that other agencies and private industry use to meet important customer needs.

Now on p. 4.

Page 8 - "However, IRS data indicate ACS has not shown any real improvement since fiscal year 1985...(when dispositions were) about 900 tax collection cases per staff year...(compared to) 800 cases (the next four fiscal years). Also,...phone calls made and received during (FY 86-89) hovered near 8.4 million, down from 1985's 9.7 million...(while) staff (increased) almost 20 percent in 1987...(and) inventory steadily (grew) since 1985 from...575,000 to 950,000 in September 1990."

Response: The decision to allow inventories to rise and dispositions to fall was made with the onset of our priority case selection system, which allowed us to increase revenue collection by focusing on potential collections rather than case disposition. The program results noted in the Commissioner's letter confirm the wisdom of this decision. TDA collections have increased to \$2.6 billion; annual TDA dispositions have increased from 1.2 million to 1.7 million; collections per staff year have increased 9%, to \$965,000; and, assessments per staff year in the TDI program have improved 300%, to \$2.5 million.

Now on p. 8.

Page 15 - "Call Site Staff Spend Too Much Time on 'Overhead' Activities."

Response: We have identified high overhead as a problem for some time. We are continuing to look at all the factors that contribute to high overhead; some which we can address, and others that are beyond our control.

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