

GAO

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

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TAX ADMINISTRATION

IRS Faces Challenges in Measuring Customer Service





**United States
General Accounting Office
Washington, D.C. 20548**

General Government Division

B-274295

February 23, 1998

The Honorable Nancy L. Johnson
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Chairman Johnson:

The Internal Revenue Service (IRS) defines its mission to be the collection of the proper amount of federal taxes owed at the least cost to taxpayers and the government. In fiscal year 1996, IRS collected over a trillion dollars and had a budget of approximately \$7 billion. Although IRS spends millions of dollars on programs to assist taxpayers in complying with the tax laws and meeting their tax obligations, IRS has been criticized by the press, the public, and Congress for its inability to meet the tax assistance needs of taxpayers.

For years, IRS has been developing and revising a system of measures to gauge its performance in achieving its mission, including reducing taxpayer burden through improved customer service. Passage of the Government Performance and Results Act in 1993 (Results Act) has led IRS to begin refocusing its performance measures on the results of its programs and operations. This is a difficult undertaking, because it requires IRS to shift its focus of management and decisionmaking away from a preoccupation with staffing, activity levels, and tasks completed to a focus on the real difference its programs make on taxpayers.

Recognizing the difficulty agencies face in meeting the requirements of the Results Act, this report responds to your request that we provide information on IRS' performance measures, particularly for those dealing with customer service. Specifically, in this report, our objectives are to (1) describe IRS' system of performance measures and (2) identify any challenges IRS faces in developing and implementing performance measures to gauge its efforts to reduce taxpayer burden through improved customer service.

Results in Brief

IRS is striving to develop and implement a results-oriented performance measurement system that will meet the requirements of the Results Act. However, IRS faces some difficult challenges in measuring the results of its efforts to reduce taxpayer burden through improved customer service.

IRS has a three-tiered system of performance measures. At the highest level, (mission level) IRS has a mission effectiveness indicator, which is intended to measure the agency's overall performance in collecting the proper amount of tax revenue at the least cost or burden to the government and the taxpayer. The second level of indicators (strategic level) is intended to gauge IRS' progress in meeting its strategic objectives to improve customer service, increase taxpayer compliance, and increase its productivity. To gauge its progress in improving customer service, IRS uses five indicators: (1) taxpayer burden cost for IRS to collect \$100, (2) initial contact resolution rate for taxpayer inquiries, (3) toll-free telephone level of access, (4) tax law accuracy rate for taxpayer inquiries, and (5) customer satisfaction rates (being developed at the time of our review).

The third level of indicators (program level) is intended to measure the accomplishments of specific IRS programs or operations, such as IRS' toll-free telephone operations. IRS' 1997 Annual Performance Plan had 30 program-level customer service measures, which measure such things as the number of taxpayer calls answered and the average number of calls answered per full-time employee.

Although IRS is striving to improve its overall performance measurement system, it faces some difficult challenges as it develops and implements performance measures to gauge its efforts to reduce taxpayer burden through improved customer service. The key challenges we identified are (1) developing a reliable measure of taxpayer burden, including the portion that IRS can influence; (2) developing measures that can be used to compare the effectiveness of the various customer service programs; and (3) refining or developing new measures that gauge the quality of the services provided. Additionally, as IRS refines its strategic goals and related measures, it is important that IRS obtain stakeholder involvement to balance its efforts between assisting taxpayers and enforcing compliance with the tax laws.

IRS recognizes the limitations of its taxpayer burden measure and is looking for alternatives. However, devising ways to measure the burden that IRS influences and overcoming the other challenges we identified will not be easy for IRS as it strives to meet the requirements of the Results Act. IRS will be faced with devising reliable measures that are useful in improving agency and program performance, improving accountability, and in supporting policy decisionmaking. At the same time, IRS will be

faced with making decisions on how to minimize the costs of collecting data and measuring results over time.

Background

According to IRS, the agency's overall mission is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of its products and services; and perform in a manner warranting the highest degree of public confidence in IRS' integrity, efficiency, and fairness. Its strategic objectives are to improve customer service, increase compliance with the tax laws, and increase IRS' productivity. Essentially, IRS is striving to encourage taxpayers to pay what they owe, reduce taxpayers' cost to get answers to their questions and prepare their tax returns, and reduce IRS' cost to collect federal taxes.

In the mid-1980s, IRS' Strategic Business Plan first provided IRS' mission statement, objectives, general strategies, and goals. IRS created the Fiscal Year 1995-2001 Business Master Plan (BMP) to incorporate IRS' vision and long-range objectives. The fiscal year 1996 BMP formalized IRS' "measures hierarchy," which was intended to link IRS' mission, objectives, and annual performance goals with respective programs. For fiscal year 1997, IRS replaced the BMP with the Strategic Plan and Budget and the Annual Performance Plan. On September 30, 1997, IRS released a new Strategic Plan that updates its strategic measures. IRS expects to use these documents to provide guidance to its field offices and to implement the Results Act.

According to IRS, improving taxpayer service is one of its highest priorities, and it has a variety of programs and operational units to assist taxpayers in meeting their federal tax obligations. A primary source of taxpayer assistance is IRS' 24 customer service centers, which are to answer calls from taxpayers who have questions about the tax laws, where to file returns, or the status of their accounts and refunds. According to IRS, in fiscal year 1996, the centers answered over 99 million taxpayer calls about tax law and procedures. Other sources of assistance include IRS' walk-in sites, taxpayer education and outreach programs, Problem Resolution Program, and Internet web site. According to IRS, about 440 walk-in sites helped almost 6.4 million taxpayers in fiscal year 1996 with tax forms, questions about their accounts, or preparing tax returns.

In addition, over the past several months, IRS has been working to improve its measures and has consulted with many stakeholders. A task force has

been formed with representatives from Treasury and OMB to develop a “balanced scorecard.”

IRS’ taxpayer education and outreach programs assist millions of taxpayers at various community locations, often with the help of volunteers and nonprofit organizations. For example, almost 12.7 million taxpayers in fiscal year 1996 received free tax information and return preparation through IRS’ Volunteer Income Tax Assistance, Tax Counseling for the Elderly, and other outreach programs. The Problem Resolution Program staff assists taxpayers who have such problems as repeated unsuccessful attempts to resolve an issue or a pending IRS enforcement action that might cause undue hardship, such as the seizure of a taxpayer’s property. Also, taxpayers may use the Internet to obtain forms and instructions, publications, information on tax topics, and press releases. According to IRS, its web site had 73 million “hits” in fiscal year 1996.

IRS has had several efforts under way to improve its performance measures. For example, the agency established the Measures Advisory Group, comprising field and National Office executives, in part to provide advice and recommendations on the agency’s performance measures. As the group suggested, IRS recently developed three new performance measures for its customer service centers: (1) customers successfully served per dollars expended, (2) dollars collected per dollars expended, and (3) taxpayers gaining access to telephone assistance as a percentage of demand. IRS’ September 30, 1997, Strategic Plan included the first measure as a strategic-level indicator for increasing productivity and the third measure as a strategic-level indicator for improving customer service. IRS plans to use the second measure as a program-level indicator.

The Results Act requires federal agencies to measure the results of their programs and operations. Agencies are expected to set goals, measure performance, make needed improvements, and report results. The Results Act required executive agencies, no later than September 30, 1997, to have developed strategic plans covering a period of at least 5 years and have submitted them to Congress and the Office of Management and Budget (OMB). Strategic plans are intended to be the framework for each agency’s performance measurement system. The Results Act also requires agencies to develop annual performance plans that are intended to reinforce the link between strategic goals and day-to-day activities. The first annual performance reports, covering fiscal year 1999, are due by March 31, 2000.

Implementation of the Results Act requires adequate and reliable performance measures that are useful in improving agency and program performance, improving accountability, or supporting policy decisionmaking. IRS recognizes that collecting such data can be costly and difficult. As with other federal agencies, IRS will have to balance the cost of data collection efforts against the need to ensure that the collected data are complete, accurate, and consistent enough to document performance and support decisionmaking at various organizational levels.

In conjunction with developing the required strategic plans, federal agencies are required to solicit views of other stakeholders to clarify their missions and reach agreement on their goals. This statutory requirement was, in part, designed to address instances where Congress, the agency, and other interested parties may disagree because of competing priorities.

Objectives, Scope, and Methodology

Our objectives were to (1) describe IRS' system of performance measures and (2) identify any challenges IRS faces in developing and implementing performance measures to gauge its efforts to reduce taxpayer burden through improved customer service.

To describe IRS' performance measures, we reviewed IRS' fiscal year 1997 Strategic Plan and Budget, including the Annual Performance Plan; its updated September 30, 1997, Strategic Plan; and other planning documents, including IRS' fiscal year 1996 Business Master Plan and Business Review. We also interviewed the staff of the National Director of Compliance Research and the National Director and staff of the Strategic Planning Division, who are responsible for developing the Annual Performance Plan; and officials in the Analysis and Studies Division, who conduct the Business Review and are responsible for establishing selected strategic measures.

To identify any challenges IRS faces in developing and implementing performance measures to gauge its efforts to reduce taxpayer burden through improved customer service, we reviewed IRS' strategic-level measures to improve customer service in its September 30, 1997, Strategic Plan for fiscal years 1997 through 2002; its fiscal year 1997 Strategic Plan; and selected program-level customer service measures in its Annual Performance Plan for fiscal year 1997. Using criteria drawn from the steps and critical practices set forth in GAO's Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996), we examined the strategic-level and new

customer service measures to determine if they were based on sound methodologies and were useful in improving agency and program performance and in supporting agency policy decisionmaking. For example, we analyzed the strategic-level taxpayer burden indicator to determine whether it (1) was linked to the burden IRS can influence and the services it provides; and (2) measured the full range of costs that taxpayers' incur, including the costs they incur after they file their returns. Similarly, we examined IRS' definition of initial contact resolution to determine what services IRS measures and the contacts that are counted as successful.

We reviewed the fiscal year 1997 Performance Plan to determine whether IRS had comparable program-level indicators for the different sources of assistance, including customer service centers, walk-in sites, the Problem Resolution Program, the Education and Outreach Program, and the Internet web site. We selected these five units or programs because they are primary sources of assistance for taxpayers who need help from IRS. Additionally, we examined IRS' definition of "customers successfully served" to determine whether IRS considered the quality of the service, such as how many times the taxpayers had to call before being assisted.

We also interviewed IRS' National Office, Atlanta Service Center, Southeast Region, Georgia District, and Nashville District officials who were responsible for either developing, implementing, or using the customer service performance measures to determine the status of IRS' system of performance measures and to obtain an understanding of the newly developed customer service measures.

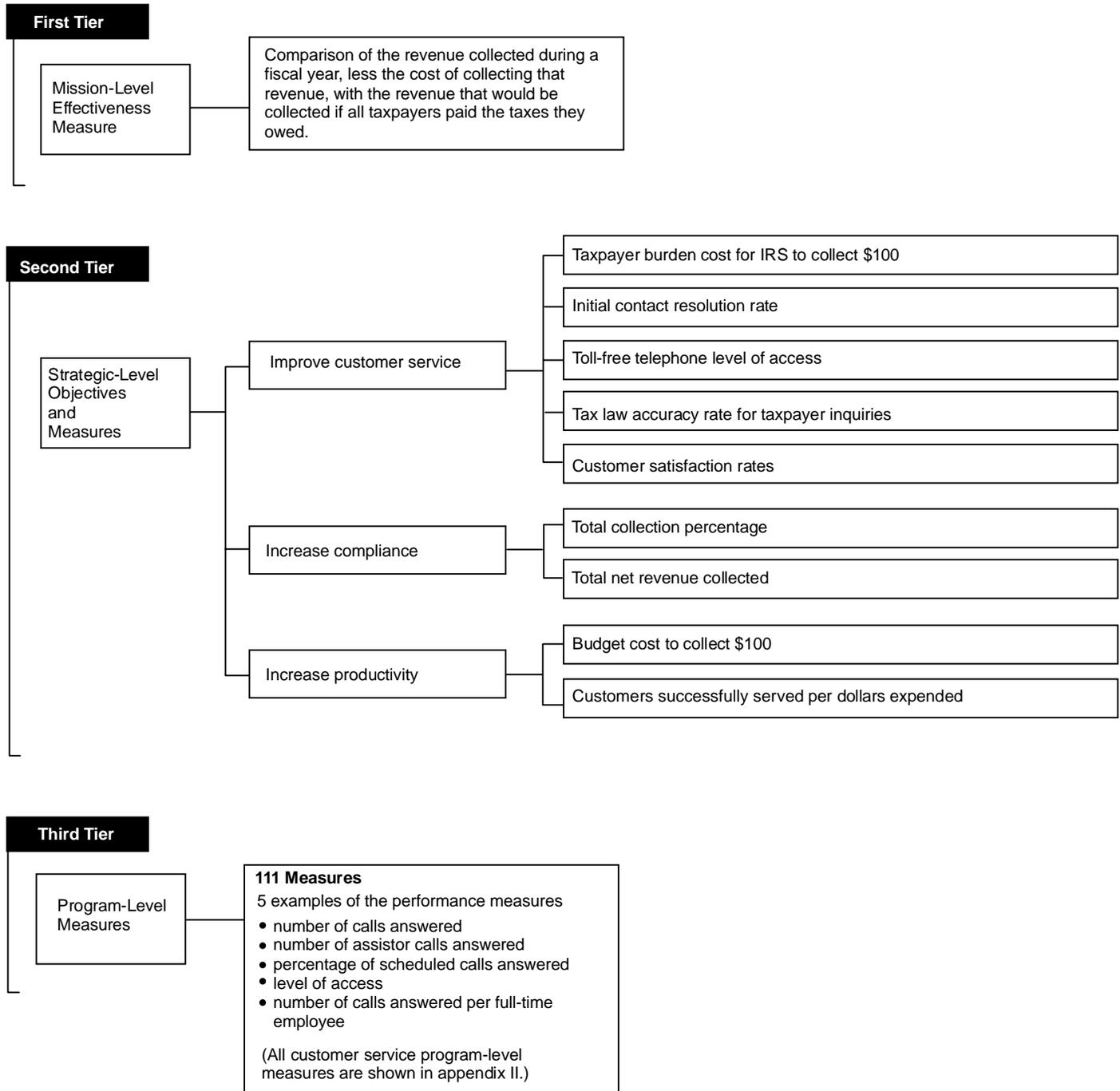
We did our work from September 1996 through December 1997 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designated representative. Responsible IRS officials, including Chief Management and Administration; the National Director, Strategic Planning Division; and staff of the Executive Officer for Customer Service provided oral comments and factual clarifications in a January 21, 1998, meeting. We have incorporated those comments in the report where appropriate. The Commissioner of IRS provided us written comments on January 23, 1998, which are discussed near the end of this report and reproduced in appendix III.

IRS Has Three Tiers of Performance Measures

IRS' system of performance measures has three tiers: mission, strategic, and program. IRS has 1 mission effectiveness measure, 3 strategic objectives with 9 measures, and 111 program measures, as depicted in figure 1.¹ See appendix I for definitions of mission-level, strategic-level, and selected customer service program-level measures.

¹The mission effectiveness and strategic measures are depicted as illustrated in IRS' September 30, 1997, Strategic Plan for fiscal years 1997 through 2002. The program measures were taken from IRS' fiscal year 1997 Annual Performance Plan.

Figure 1: IRS' Performance Measures



(Figure notes on next page)

Source: IRS' September 30, 1997, Strategic Plan for fiscal years 1997 through 2002 and its 1997 Annual Performance Plan.

First-Tier Measure Is to Gauge Overall Performance

IRS' mission-level effectiveness indicator (MEI) is intended to measure the agency's performance in accomplishing its primary mission of collecting the proper amount of tax revenue at the least cost. The MEI compares total revenue collected during a fiscal year, less the cost of collecting the revenue (the sum of IRS' budget and estimated taxpayers' costs), to the revenue that should have been collected if all taxpayers had paid their full liability. With the MEI, IRS has a mission-level performance indicator that includes the taxpayer compliance rate, the cost or burden to taxpayers of complying with the tax laws, and the cost of operating IRS.

Second-Tier Measures Are to Gauge Progress in Achieving Strategic Objectives

The second tier of measures includes nine performance indicators that are intended to gauge IRS' progress in achieving its three strategic objectives—improve customer service, increase compliance, and increase productivity.

These three objectives link directly to the MEI, because improving customer service reduces taxpayer burden, increasing compliance increases the compliance rate, and increasing productivity reduces IRS cost.

Improve Customer Service

To improve customer service, IRS seeks to better serve the public, reduce taxpayer burden, and increase public confidence in the tax administration system. IRS seeks to improve taxpayer access, resolve as many inquiries as possible on the first contact, and increase customer satisfaction. IRS states that improving customer service supports its mission to collect the proper amount of tax at the least cost to taxpayers and IRS.

IRS uses five indicators to gauge its progress in improving customer service: (1) taxpayer burden cost for IRS to collect \$100, (2) initial contact resolution rate, (3) toll-free telephone level of access, (4) tax law accuracy rate for taxpayer inquiries, and (5) customer satisfaction rates (being developed at the time our review). According to IRS, the taxpayer burden measure is the principal measure of its efforts to improve customer service.

Increase Compliance

To increase compliance, IRS seeks to encourage and assist taxpayers to file timely and accurate returns and to pay their taxes on time. If taxpayers do

not comply, IRS intends to take appropriate action to force the taxpayers to comply. Also, to help improve customer satisfaction, IRS intends to treat taxpayers with courtesy, fairness, and professionalism.

IRS uses two indicators to gauge its progress in increasing compliance: (1) total collection percentage and (2) total net revenue collected. According to IRS, the principal measure of taxpayer compliance is the total collection percentage, or the comparison of the revenue IRS collects with the total tax liability.

Increase Productivity

To increase productivity, IRS seeks to continually improve operations and the quality of products and services it provides to customers through reengineering and a highly skilled work force. IRS states that accomplishing this objective will increase compliance, improve customer service, and reduce the cost of tax administration.

To gauge its progress toward accomplishing this objective, IRS uses two indicators: (1) budget cost to collect \$100 and (2) customers successfully served per dollars expended. According to IRS, its principal productivity measure is the amount it spends to collect \$100 as measured by comparing IRS' budget to the revenues it collects.

Third-Tier Measures Are to Gauge Program Performance

The third tier of measures—111 in all—is intended to gauge how well specific IRS programs are performing. IRS' fiscal year 1997 Annual Performance Plan had 16 submission processing measures, 30 customer service measures, and 38 compliance measures. The plan also had 8 Service-wide measures for which all IRS executives and managers shared responsibility and 19 other measures specific to such areas as resource management and business operations.

Appendix II provides a complete list of IRS' 30 program-level customer service performance measures.

IRS Faces Challenges Developing and Implementing Customer Service Measures

IRS is striving to develop and implement a results-oriented performance measurement system to meet the requirements of the Results Act. However, IRS faces some difficult challenges in measuring the results of its efforts to reduce taxpayer burden through improved customer service. The key challenges we identified are (1) developing a reliable measure of taxpayer burden, including the portion that IRS can influence; (2) developing measures that can be used to compare the effectiveness of

the various customer service programs; and (3) refining or developing new measures that gauge the quality of the services provided. As IRS refines its customer service measures, it must consider the costs of implementing the measures, including the costs of collecting and analyzing data over time.

Developing a Reliable Taxpayer Burden Measure Linked to IRS Services

IRS' taxpayer burden indicator is intended to measure taxpayers' cost for IRS to collect \$100. IRS measures taxpayer burden by using a model that estimates the time taxpayers spend on each tax form using variables such as the number of lines on a tax form. The burden estimate excludes the time and costs taxpayers face after they file their tax returns, such as responding to IRS notices and audits. Additionally, it is not linked to important IRS services to assist taxpayers in meeting their tax obligations. As a result, IRS' burden estimates may not reflect reductions in taxpayer burden that are attributable to these services. The flaws in the burden measure also limit the usefulness of IRS' mission effectiveness indicator, because burden is a key component of this indicator. IRS recognizes the limitations of its burden measure and is looking for alternatives.

IRS calculates its burden indicator by using a model developed by Arthur D. Little, Inc. The model estimates the time a taxpayer spent on each tax form using variables, such as the number of lines on the form, number of words and pages in the related instruction booklet, and the number of references to the Internal Revenue Code. IRS then converts this total time estimate to dollar costs by multiplying the total time by IRS' estimate of the value of a taxpayer's hour.

IRS' burden model excludes the time and costs taxpayers incur after tax forms are filed, such as the time taxpayers spend inquiring about the status of a tax refund or responding to notices, examinations, or other IRS-initiated compliance activities. In a recent draft issue paper, IRS identified several other shortcomings in the model, including weaknesses in the underlying assumptions of the model. For example, the model uses the number of lines on a form to estimate the form's burden, even though additional lines may make the form simpler or easier to understand. Also, the draft issue paper said that the 1983 data underlying the model are outdated and cited methodological errors in the development of the model.

The limitations of the taxpayer burden measure affect IRS' mission effectiveness indicator because taxpayer burden is one of the four elements of this indicator. The indicator compares total revenue collected

during a fiscal year, less the cost of collecting the revenue (the sum of IRS' budget and estimated taxpayers' costs) with the revenue that should have been collected if all taxpayers had paid their full liability. The usefulness of IRS' overall measure is questionable considering the limitations of the taxpayer burden measure.²

IRS recognizes the limitations of the current methodology for measuring burden and in 1995 sought help in developing an improved methodology for measuring all facets of taxpayer burden. Specifically, IRS issued a request for proposals seeking contractors to develop an approach for measuring taxpayer burden, including the burden after forms are filed. However, according to IRS, no contractors were interested in doing the work.

The lack of response to IRS' request may reflect the difficulty of measuring overall compliance burden. In our December 9, 1994, testimony before the Subcommittee on Oversight, House Committee on Ways and Means, we discussed the difficulties of measuring taxpayer burden and reported that a reliable estimate of the overall burden taxpayers incur to comply with the tax laws was not available.³ As a part of our study, we spoke with several business and tax professionals, who told us that the complexity of the Internal Revenue Code, compounded by the frequent changes made to the Code, is part of what makes federal tax compliance so burdensome.

Recently, IRS initiated another effort to obtain a contractor to develop an improved burden measurement model and is now in the initial stages of determining contractor interest. In the short term, IRS plans to expand its current measure of taxpayer burden to include contact and enforcement burden, such as the burden taxpayers incur when responding to IRS notices, telephone calls, and audits.

Despite recognizing the shortcomings in the current taxpayer burden measure, IRS has set goals for reducing burden based on the measure. It then rolls these goals up into its mission effectiveness indicator. To show progress through this indicator, IRS must reduce the number of lines on tax forms or worksheets, reduce the number of words and pages in instructions, or take actions that affect the variables in the Little model. However, the model does not distinguish between lines on forms that add

²Also, IRS has acknowledged that its estimate of total tax liability is based on outdated Taxpayer Compliance Measurement Program (TCMP) data. TCMP is a program that measures compliance nationwide for selected types of taxpayers—for example, individuals and small corporations.

³Tax System Burden: Tax Compliance Burden Faced by Business Taxpayers (GAO/T-GGD-95-42, Dec. 9, 1994).

to burden and lines that reduce the burden by making the calculation of tax liability easier. Unless additional analysis is done to assess how eliminating particular lines on forms affects burden, IRS could take actions to meet its goals that actually increase taxpayer burden. Furthermore, most IRS customer service programs have no effect on IRS' measure of taxpayer burden.

Devising a comprehensive measure to gauge the costs taxpayers incur to meet their federal tax obligations is a difficult task and offers a significant challenge for IRS. First, IRS would need to devise a means to capture the costs taxpayers incur after they file their returns. This may be difficult to do, because the costs could vary substantially depending on the circumstances of the different taxpayers. For example, providing information to support a tax return may not cost very much when compared to the cost of preparing for and responding to an audit. Second, because of the limitations of the Little model, IRS must decide whether to revise the model or to devise another means to estimate the costs taxpayers incur to prepare and file their tax returns. Third, IRS must measure the elements of burden it can influence as opposed to the burden caused by such things as changes in the tax code. A reliable taxpayer burden measure would allow IRS to make decisions on how to allocate resources to best reduce the burdens taxpayers face to meet their tax obligations. Finally, as IRS refines its taxpayer burden measure, it will be faced with devising an efficient means for collecting and analyzing the data to measure burden over time. Otherwise, the cost of measuring burden could exceed the benefits.

Developing Comparable Measures for Different Customer Service Programs

Among other things, the Results Act requires agencies to develop and implement measures that are useful in improving program performance or in supporting policy decisionmaking. One way IRS can do this is to develop measures that can be used to compare the effectiveness of the different customer service programs. Our analysis of IRS' fiscal year 1997 program-level measures for customer service points out the need for such measures, but the history of the initial contact resolution measure demonstrates the difficulty IRS faces in implementing such measures. Although IRS has three new strategic-level customer service measures for fiscal year 1998, similar to the initial contact resolution measure, two are limited to measuring telephone assistance.

When taxpayers need assistance from IRS, among other things, they can call a customer service center, visit a walk-in site, call or visit a problem

resolution office, call or visit an outreach facility, or access IRS' Internet web site. IRS' 1997 Annual Performance Plan had 27 program-level indicators for its customer service centers and 3 for its Problem Resolution Program. However, the plan had no program-level indicators to measure the performance of the walk-in sites, education and outreach programs, and the Internet web site, even though these three sources of assistance provide a range of services to help taxpayers file their returns and otherwise comply with the tax laws and reporting requirements.

One of IRS' fiscal year 1997 strategic-level indicators for measuring its progress in improving customer service was the initial contact resolution rate. This measure is intended to gauge IRS' progress in satisfactorily resolving all issues resulting from a taxpayer's first inquiry to IRS—formerly known as the “one-stop service” concept. Providing one-stop service would reduce taxpayer burden and the demand for IRS services. However, since the August 1991 implementation of its one-stop service goal, IRS has often redefined the goal and the types of contacts that are counted as successful and plans to change the goal again.

Originally, IRS' measurement focused on account-related taxpayer inquiries at district toll-free telephone sites. In our August 1994 report, we concluded that IRS was overstating its successes for one-stop service because it was counting calls that did not fully resolve the taxpayers' questions.⁴ We recommended that IRS develop better measures to exclude those instances where taxpayers would likely need to contact IRS again about the same matter. We also recommended that IRS measure all types of taxpayer inquiries, including all telephone contacts, service center correspondence, and walk-in inquiries. In March 1995, IRS changed the name of the measure to “initial contact resolution” and incorporated our recommendations to include correspondence and walk-in inquiries.

Officials told us that IRS was establishing a new definition for fiscal year 1998 that would be limited to telephone operations, which was recommended in a recent internal audit report.⁵ The internal audit report did not address the need for measuring other types of IRS assistance, such as education and outreach and walk-in. Essentially, the report concluded that IRS' initial contact resolution measure should be limited to telephone operations, because the inclusion of correspondence would add responses

⁴Tax Administration: Better Measures Needed to Assess Progress of IRS' One-Stop Service (GAO/GGD-94-131, Aug. 29, 1994).

⁵Achieving Initial Contact Resolution Rate (ICR) In Customer Service, IRS Internal Audit (July 29, 1997).

to notices that had, in the past, taken up to 60 days to resolve. An IRS official told us that the initial contact resolution measure would not include walk-ins because (1) IRS does not have a system in place to measure the rate; (2) it is very difficult to monitor walk-in contacts in a valid way without standing over the individual customer service representative; and (3) the volume is relatively small compared to telephone contacts and paper correspondence and, as a result, would not affect the measure very much. Because IRS' customer service programs vary, without comparable measures, IRS is unable to compare the performance and effectiveness of the different customer service programs.

Comparable measures for the customer service programs would allow IRS to monitor the performance and compare the effectiveness of the different programs. Such comparisons would assist IRS in making decisions on how to allocate resources among the different programs to maximize results. However, developing comparable measures of effectiveness will be difficult, primarily because of the range of services and options taxpayers have when they need assistance from IRS. Also, IRS would need to consider the costs of collecting and analyzing the data to measure performance of the different programs.

IRS added three new strategic-level measures in its September 30, 1997, Strategic Plan: (1) toll-free telephone level of access, which is intended to compare the number of calls attempted to the number of calls answered; (2) tax law accuracy rate for taxpayer inquiries, which is intended to measure the accuracy of tax law information provided to taxpayers through the toll-free telephone assistance program; and (3) customer satisfaction rates. Similar to the initial contact resolution measure, the first two measures are also limited to the telephone program, even though taxpayers have other sources, such as walk-in sites and the Internet, to obtain answers to their tax law questions. At the time of our review, IRS was in the process of determining how to measure customer satisfaction.

Refining Measures to Better Gauge the Quality of Services Provided

One of IRS' new strategic-level productivity measures for its 24 customer service centers for fiscal year 1998 is "customers successfully served per dollar expended." Our analysis of this measure points out the need to better measure the quality of services provided.

According to IRS' definition, successfully served means a taxpayer received "an accurate response to a call or resolution of a case." This definition does not consider other elements that would affect what a taxpayer may

consider as successful service, such as the number of times the taxpayer called before being assisted, how long the taxpayer had to wait before being served, and the courtesy and professionalism of the assistor. As a result, the taxpayer, although served, may not believe he or she was “successfully” served.

IRS’ strategic-level customer service measures have similar limitations. For example, the initial contact resolution measure is intended to gauge IRS’ performance in resolving issues resulting from a taxpayer’s first inquiry to IRS. The tax law accuracy rate measure gauges the extent to which taxpayers are provided correct answers. IRS does not measure such things as how long it took to resolve the issues or how courteous and professional the assistors were when interacting with the taxpayers or whether the need for the contact could have been prevented.

Revising measures to better gauge the quality of assistance is a major challenge for IRS. For example, developing measures of timeliness will be very difficult because of the different programs and the range of services they provide. Also, IRS would have to devise a means to capture such data. As with other measures, IRS may be faced with making trade-offs between how to refine the measures and the cost of collecting the needed data.

Obtaining Stakeholders’ Involvement

Although statutory requirements are to be the starting point for agency mission statements, Congress, the executive branch, and other interested parties may all disagree about a given agency’s mission and goals. The Results Act seeks to address such situations by requiring federal agencies to consult with Congress and solicit the views of other stakeholders in developing their strategic plans. Stakeholder involvement is important to help agencies ensure that their efforts and resources are targeted at the highest priorities.

Obtaining stakeholder involvement is especially important for IRS as it seeks to balance its efforts and resources between assisting taxpayers and enforcing compliance with the nation’s tax laws. Stakeholders could assist IRS in devising performance measures that would enhance IRS’ ability to make more informed decisions about how to allocate its resources between the competing demands of assistance and enforcement.

Conclusions

IRS is striving to develop and implement a results-oriented performance measurement system to meet the requirements of the Results Act.

However, IRS faces some difficult challenges as it develops and implements its efforts to reduce taxpayer burden through improved customer service. IRS will be faced with devising reliable measures that are useful in improving agency and program performance, improving accountability, or supporting policy decisionmaking. At the same time, IRS will be faced with making decisions on how to minimize the costs of collecting data and measuring results over time.

IRS' taxpayer burden measure is not a useful guide to IRS performance because it is based on flawed methodology that does not link to the burdens IRS influences and the various services it provides. Additionally, it does not measure burdens taxpayers face after they file their tax returns. As a result, most IRS customer service programs that IRS characterizes as customer service have no effect on IRS' measure of taxpayer burden.

IRS does not have a comprehensive set of customer service indicators that gauges the full range of taxpayer services. As a result, IRS is unable to compare the performance of the different customer service programs and make funding decisions based on the programs' costs and benefits—a key goal of the Results Act. Developing comparable measures for the different programs will be difficult, primarily because of the range of assistance the different programs provide.

Similarly, IRS' customer service measures do not adequately measure the quality of the services taxpayers receive from IRS. Although some of the measures gauge the extent to which taxpayers' issues are resolved or the accuracy of the information IRS provides, they do not measure such things as how long it takes IRS to resolve the issues or how courteous and professional the assistants are when interacting with the taxpayers. Revising the measures to better gauge the quality of assistance is a major challenge for IRS, primarily because of the many different programs and the range of services they provide. Also, IRS would have to devise a means to capture such data.

Devising ways to measure taxpayer burden and overcoming the other limitations we identified offer significant challenges for IRS as it strives to meet the requirements of the Results Act. Not only will IRS be faced with devising consistent, results-oriented measures for a range of taxpayer services, it will also be faced with making decisions on how to minimize the costs of collecting data and measuring results over time. In doing so, IRS is also faced with balancing competing priorities. To balance these competing priorities, it is essential that IRS continue to involve those who

are served by IRS—the taxpayers—as well as other stakeholders, such as Congress and the Office of Management and Budget.

Recommendations to the Commissioner of Internal Revenue

As IRS refines its customer service performance measures, we believe it is essential that IRS make the measures useful for managing the different customer service programs, allocating resources, improving accountability, and supporting policy decisions. Accordingly, as IRS refines its customer service measures, we recommend that the Commissioner of Internal Revenue direct the appropriate officials to work to develop performance indicators that cover the full range of IRS' customer service programs.

Agency Comments

We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designated representative. In a January 21, 1998, meeting responsible IRS officials, including the Chief Management and Administration; the National Director, Strategic Planning Division; and staff of the Executive Officer for Customer Service provided oral comments and some factual clarifications, which we incorporated in the report where appropriate. The Commissioner of IRS provided us written comments on January 23, 1998 (see app. III). He concurred with the report's findings and recommendation. He said that IRS recognizes the critical importance of measuring customer service and is working to improve its measures, including consulting many stakeholders. He also said that IRS is working with a contractor to develop customer satisfaction surveys for all business lines that interact with the public.

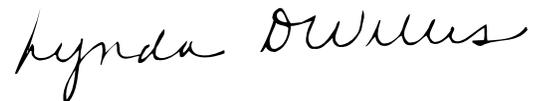
On January 28, 1998, after our receipt of IRS' comments on the draft of this report, the IRS Commissioner announced a conceptual framework for a proposal to reorganize IRS to better align its activities into organizational elements serving different types of taxpayers (e.g., individuals, large corporations). Although details of this proposed reorganization are not available, and any IRS reorganization may be affected by other proposals for IRS restructuring under consideration by Congress, we note that the customer service measures discussed in this report and any IRS plans to improve them may be affected by these possible organizational changes.

We are sending copies of this report to the Subcommittee's Ranking Minority Member, the Chairmen and Ranking Minority Members of the House Committee on Ways and Means and the Senate Committee on

Finance, various other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in appendix IV. Please contact me on (202) 512-9110 if you have any questions.

Sincerely yours,

A handwritten signature in cursive script that reads "Lynda D. Willis".

Lynda D. Willis
Director, Tax Policy and
Administration Issues

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Abbreviations

| | |
|------|---|
| ACS | Automated Collection System |
| BMP | Business Master Plan |
| FTE | full-time equivalent |
| IRS | Internal Revenue Service |
| MEI | Mission Effectiveness Indicator |
| OMB | Office of Management and Budget |
| PRP | Problem Resolution Program |
| TCMP | Taxpayer Compliance Measurement Program |
| TDA | Taxpayer Delinquent Account |
| TDI | Taxpayer Delinquency Investigation |
| TPS | Taxpayer Services |

Definitions of Mission-Level, Strategic-Level, and Selected Customer Service Program-Level Measures

These definitions are as stated in the Internal Revenue Service's (IRS) September 30, 1997, Strategic Plan for fiscal years 1997 through 2002, except for minor changes we made for clarity. We did not validate these definitions.

Mission Level

Mission Effectiveness Indicator: This compares the revenue IRS expects to collect during a fiscal year, less the cost of collecting that revenue, with the amount of revenue that IRS would collect if all tax obligations were honored. The four components of this measure are budget, total revenue, burden, and total tax liability.

- **Budget:** This is the amount of money appropriated by Congress or requested by IRS through Treasury and the Office of Management and Budget (OMB).
- **Total revenue:** This is all revenue collected by IRS, including revenue resulting from enforcement activities, but excluding refunds.
- **Burden:** This is a "monetized" estimate of the number of burden hours placed on taxpayers to meet their tax obligations. The calculation is based on a methodology developed by Arthur D. Little, Inc.
- **Total tax liability:** This is an estimate of the amount of individual income, corporate income, and employment taxes that should have been paid in a given year, if all taxes that were legally owed had been paid.

Strategic Level

Improve Customer Service Objective: The purpose of this objective is to better serve the public, reduce taxpayer burden, and increase public confidence in the tax administration system. IRS seeks to improve taxpayer access, resolve as many inquiries as possible on the first contact, and increase customer satisfaction.

Taxpayer burden cost (in dollars) for IRS to collect \$100: This ratio measures the private sector costs compared to the cost for IRS to collect \$100 in net tax revenue. Net tax revenue includes all revenue collected (income, employment, estate and gift, and excise taxes) by IRS in a fiscal year, less refunds. Private sector costs cover the paperwork burden imposed on the public as a result of the federal tax reporting system administered by IRS. Private sector costs of the paperwork burden are based on the estimated time individual and business taxpayers spend keeping tax records, learning about tax laws, preparing tax forms, and sending tax forms to IRS. Taxpayer paperwork burden is converted from

Appendix I
Definitions of Mission-Level, Strategic-Level,
and Selected Customer Service
Program-Level Measures

time to dollars by multiplying total time by the estimated value of a taxpayer's hour.

- Initial contact resolution rate: This measures the successful resolution of all issues resulting from the taxpayer's first inquiry, telephone only.
- Toll-free telephone level of access: This is the percentage of calls answered. The percentage is computed by comparing the number of calls attempted (demand) to the number answered in all components of the Customer Service function (Automated Collection System, Customer Service Toll-free, and the Centralized Inventory and Distribution System).
- Tax law accuracy rate for taxpayer inquiries: This measures the rate at which IRS' toll-free telephone assistance program provides taxpayers accurate tax information.
- Customer satisfaction rates: This measure was under development at the time of our review.

Increase Compliance Objective: The purpose of this objective is to encourage and assist taxpayers to voluntarily file timely and accurate returns and to pay on time and, if taxpayers do not comply, to take appropriate compliance actions.

- Total collection percentage: This is the ratio of total collections to total estimated true tax liability.
- Total net revenue collected: This is all revenue collected by IRS, including revenue resulting from enforcement activities, but excluding refunds.

Increase Productivity Objective: The purpose of this objective is to continually improve operations and the quality of products and services provided to taxpayers, using systems management tools and a highly skilled work force.

- Budget cost to collect \$100 in revenue: This ratio measures the IRS budget cost of collecting \$100 in net tax revenue. Net tax revenue includes all revenue collected (income, employment, estate and gift, and excise taxes) by IRS in a fiscal year, less refunds.
- Customers successfully served per dollars expended: This measure calculates the average cost for IRS' 24 customer service centers to accurately respond to a taxpayer's inquiry.

**Selected Customer
Service Program
Level⁶**

Number of calls answered: This is the number of calls accepted by the Automatic Call Distributor system, including calls where the caller chooses Tele-Tax (an interactive, self-directed system) during and after business hours.

Number of assistor calls answered: This is the number of calls accepted by the Automatic Call Distributor system and answered by an assistor.

Percentage of scheduled calls answered: This is the number of calls answered as a percentage of the number of calls expected to be answered by the call sites, considering the level of staffing.

Level of access: This is the number of taxpayers who receive telephone assistance as a percentage of the total number of taxpayers seeking assistance.

Number of calls answered per full-time equivalent (FTE) employee: This is the number of calls accepted by the Automatic Call Distributor System, minus calls abandoned, divided by the number of FTE employees assigned to answer taxpayers' calls.

⁶ These selected customer service program-level definitions are included in IRS' fiscal year 1997 Annual Performance Plan.

IRS' Program-Level Customer Service Measures

Number of Calls Answered - Includes Automated
Number of Assistor Calls Answered
Percent of Scheduled Calls Answered
Taxpayer Service (TPS) Level of Access
TPS Calls Answered per Full-time Equivalent Employee (FTE)
TPS Tax Law Accuracy Rate
TPS Account Accuracy Rate
Notice Accuracy - Service Center only
Adjustments - Work Days of Inventory - Service Center only
Customer Service Accuracy Rate - Service Center only
Customer Service Productivity - Service Center only
Customer Service Timeliness - Service Center only
Service Center Collection Branch Dollars Collected
Assessments, Substitute for Return
Percent of Problem Resolution Program (PRP Cases) Identified - Service Center only
PRP Average Processing Time To Close Cases
PRP Quality Customer Service Rate
Service Center Examination Cycle Time
Service Center Examination Dollars Recommended
Service Center Examination Dollars Recommended per FTE
Service Center Examination Audit Coverage
Automated Collection System (ACS) Level of Service
ACS Average Cycles per Taxpayer Delinquent Account (TDA)/Taxpayer Delinquency Investigation (TDI) Disposition
Total Dollars Collected as a Percent of Current Year ACS Receivables
ACS Dollars Collected
ACS Dollars Collected per FTE
ACS TDA/TDI Average Hours per Entity
Underreporter Assessments
Underreporter Refunds
Document Matching Dollars Recommended

Comments From the Internal Revenue Service



COMMISSIONER

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

January 23, 1998

Ms. Lynda D. Willis
Director, Tax Policy and Administration Issues
United States General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Willis:

The IRS appreciates the opportunity to review and comment on the draft General Accounting Office (GAO) report, Tax Administration--IRS Faces Challenges in Measuring Customer Service.

Overall, we concur with the report's findings and the recommendation. We recognize the critical importance of measuring customer service in our effort to become a first class customer service organization. Over the past several months we have been working to improve our measures, and have consulted with many stakeholders including your office, Treasury Department, Office of Management and Budget (OMB), Congress and the National Performance Review (NPR). However, based on the issues that arose during the recent Senate Finance hearings we have decided to take another look at our measures. As a result, we formed a task force with representatives from Treasury and OMB to develop a balanced scorecard; we will work with a contractor to develop the balanced scorecard which will be implemented during FY 1999.

Since September 1997, we have been working with a contractor in the development of Servicewide customer satisfaction surveys for all business lines which interact with the public (e.g., telephone assistance, walk-ins, compliance, etc.). This contractor has had extensive experience in the private sector with survey design and implementation. The surveys will be statistically valid samples of customers who have actually had contact with the IRS. Phase I of the surveys will be implemented in March, 1998, and will include surveys for Collection, Examination, Employee Plans/Exempt Organizations, Customer Service (Toll-Free, Automated Collection System (ACS), Service Center Examination, and Walk-ins), and Appeals. Phase II will be implemented by the end of FY 1998. We are also working to improve our quality measures for the compliance function.

**Appendix III
Comments From the Internal Revenue
Service**

2

We look forward to meeting with you to further discuss these important issues. If you have any questions, or need additional information, please let me know, or your staff may contact Charlotte Perdue, National Director, Strategic Planning Division at (202) 874-9377.

Sincerely,



Charles O. Rossotti

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