

**The Internal Revenue Service
Can Improve Customer Service
by Accelerating Refund Payments**

August 1999

Reference Number: 093903



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 5, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Can Improve
Customer Service by Accelerating Refund Payments

The National Performance Review (NPR) and Executive Orders direct agencies to be customer-driven. When the directives are compared to current Internal Revenue Service (IRS) customer service practices, opportunities for improvement emerge. The IRS has made progress, but a slow-changing culture and the retention of traditional refund operating processes are barriers to its continuing progress.

In summary, we compared NPR concepts, Executive Orders and legislative requirements with the IRS strategic plan and returns processing practices. At the time of our review, the IRS' Mission Statement needed changing to be more customer-focused. Subsequent to the issuance of the draft of this report, however, the IRS changed its Mission Statement.

We also recommended that the IRS' paper return refund processing be accelerated to provide better service to taxpayers and reduce costs.

In this regard, the IRS is requesting some changes that will reduce paper return refund processing by 7 to 11 days. This change will affect over 72 million returns and could save up to \$150 million in interest payments. While there are some differences between our recommendations and the corrective actions taken, if the IRS implements the planned actions, customers will receive refunds weeks earlier than they do now.

Management's response to the findings and recommendations has been incorporated into this report where appropriate. The complete text of the response is presented as an appendix to the report. Copies of this report are also being sent to IRS managers who are affected by the report recommendations.

Please contact me at (202) 622-6510, or your staff may contact Walter Arrison, Associate Inspector General (Wage and Investment Income Program), at (202) 622-6510, if you have any questions.

**The Internal Revenue Service Can Improve Customer
Service by Accelerating Refund Payments**

Table of Contents

Executive Summary	Page	i
Objective and Scope	Page	1
Background.....	Page	1
Results	Page	1
Increased Emphasis on Executive Branch and Congressional Initiatives Can Assist in Transforming the IRS Into a More Customer-Driven Agency	Page	3
Improved Customer Focus through Complementary Goals Can Improve Taxpayer Satisfaction and Reduce Operating Costs	Page	7
Conclusion	Page	15
Appendix I - Detailed Objective, Scope and Methodology	Page	16
Appendix II - Major Contributors to This Report	Page	18
Appendix III - Report Distribution List.....	Page	19
Appendix IV - Management’s Response to the Draft Report.....	Page	20

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Executive Summary

The National Performance Review (NPR) and Executive Orders direct agencies to be customer-driven. When the directives are compared to current Internal Revenue Service (IRS) customer service practices, opportunities for improvement emerge. The IRS has made progress, but a slow-changing culture and the retention of traditional refund operating processes are barriers to its continuing progress.

During the 1997 filing season, IRS met or exceeded the IRS-set performance goals. More than 118 million tax returns were processed; over \$95 billion in overpayments on 75 million returns were refunded; 103 million telephone calls were answered; and almost 7 million walk-in taxpayers were served. Also, a dramatic 19 percent increase in telephone access was achieved. Returns processing quality and accuracy also improved. At the same time, new legislation was implemented to prevent erroneous refunds.

While some areas require improvements, filing season audits showed that the individual programs were generally effective in meeting objectives and goals. This report presents an overall evaluation of the performance outcomes from a customer perspective.

Results

The audit focused on two critical success areas concerning filing season activities:

- **Increased Emphasis on Executive Branch and Congressional Initiatives Can Assist in Transforming the IRS Into a More Customer-Driven Agency**

The IRS aggressively implemented the Government Performance and Results Act of 1993 strategic planning requirements. However, the same tax administration-oriented Mission Statement has been used since 1984. This is at odds with the NPR, which focuses on customer-driven strategic planning. The IRS may have difficulty in communicating the change and converting to a customer-focused organization with a Mission Statement and Business Vision directed more to tax administration. Subsequent to the issuance of a draft of this report, the IRS changed the Mission Statement.

- **Improved Customer Focus through Complementary Goals Can Improve Taxpayer Satisfaction and Reduce Operating Costs**

The IRS analyzed the cause-and-effect relationship between refund tax return processing and refund inquiry telephone volumes. However, the IRS delayed action for further study since focus group interviews showed that those taxpayers were “satisfied” with the 40 days taken to issue refunds on paper-filed returns. The IRS has also adopted an electronic filing goal strategy to not accelerate paper return

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

refunds since faster refunds is the advertised incentive for taxpayers to file electronically.

Overall, the IRS is achieving higher levels of customer-driven service in accordance with Executive Orders and Congressional NPR initiatives.

Summary of Recommendations

The IRS' senior executives should evaluate how the Strategic Plan and Budget can be more integrated with the NPR direction for customer-driven strategic planning.

Responsible IRS functions should work together to accelerate refunds to satisfy customer needs and reduce costs. Several short-term, low-cost, non-reengineering changes could significantly reduce refund issuance time frames. This will require cooperating with other federal agencies, which is also in accordance with NPR initiatives. Long-term changes could further accelerate refund issuance and lower costs.

Management's Response

The IRS Mission has changed. However, IRS management determined that the Restructuring and Reform Act of 1998 direction precludes any wholesale system changes. The law requires the IRS to:

“...establish a strategic plan to eliminate barriers, provide incentives and use competitive market forces to increase taxpayer use of electronic filing **while maintaining processing times for paper returns at 40 days.**”

Some actions, which will not require significant changes, are being explored. The IRS is coordinating with the Financial Management Service to accelerate all paper check refund processing by 7 to 11 days. This affects paper refund checks for 7.4 million electronic filers and 65 million individual and business paper filers. The government will also save up to \$150 million in interest payments.

Office of Audit Comments

All efforts to improve refund processing time frames are beneficial. The proposed actions will benefit taxpayers and reduce government operating costs. If all contemplated actions are taken, up to 72.4 million taxpayers could get their refunds about two weeks faster. Additional opportunities to improve customer service are available; however, the IRS believes it is constrained by its electronic filing goals.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

We disagree that the Congress intended to prevent the IRS from improving on the 40-day refund period for paper returns. The Restructuring and Reform Act of 1998 legislative history does not support this interpretation. The 40-day refund is about double the time taken for electronic returns. The IRS *e-file* advertisements highlight the time difference between electronic filing and paper return refund processing.

The IRS needs to identify alternate strategies for increasing electronic filing rather than intentionally denying improved customer service to millions. Taxpayers may file on paper either for personal choice or because of financial constraints. Improved service should not be sacrificed so that the IRS can meet electronic filing goals. The audit demonstrated that significant time saving processes are achievable at minimal costs. The choice to not accelerate refund processing by IRS senior executives is a costly one to taxpayers and the government. The high costs alone for answering calls and making interest payments suggest that other strategies should be pursued.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Objective and Scope

The objective focused on the IRS' efforts to provide customer service.

The objective of this audit was to evaluate whether the Internal Revenue Service's (IRS) operations are making progress towards meeting business visions and strategies. We assessed whether the IRS has included in its strategies the requirements to provide customer service established by statute and Executive Order.

We contacted executives in National Office functions, assessed Internal Audit (now Office of Audit, Treasury Inspector General for Tax Administration) and General Accounting Office audit reports and reviewed pertinent management studies to draw conclusions. The audit was conducted from August 1997 through April 1998. The detailed objective, scope and methodology are provided as Appendix I.

The major contributors to this report are included in Appendix II.

Background

The report summarizes the results of an assessment of the 1997 filing season.

This report presents the results of an assessment of the 1997 filing season and whether the IRS is making progress towards its strategic initiatives. The report is part of audit services to provide executive management with broad overviews of critical tax administration issues.

Results

The IRS improved filing season results from the previous filing season.

The IRS improved filing season results from the previous filing season. The performance measure results used to determine whether goals are being met were generally improved in all filing season categories. The IRS was also successful in implementing new legislation preventing erroneous refunds, improving telephone service, increasing the volume of electronic

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

The 1997 filing season audit results showed that programs were generally effective in meeting goals and objectives.

Government agencies are directed to be customer-focused and driven.

filers, and increasing the number of walk-in taxpayers to almost seven million.

The 1997 filing season audits focused on program delivery. While some areas require improvements, filing season audits determined that the individual programs were generally effective in meeting objectives and goals. This report presents an overall evaluation of the performance outcomes from a customer perspective.

The National Performance Review (NPR) recommended and Executive Orders directed agencies to be customer-driven. We assessed the three related areas of strategic planning, customer service, and stakeholder service. Overall, the IRS was moving towards the Executive and Congressional direction; however, further improvements are needed.

The audit focused on two critical areas for success concerning filing season activities.

- Increased Emphasis on Executive Branch and Congressional Initiatives Can Assist in Transforming the IRS Into a More Customer-Driven Agency (see page 3).
- Improved Customer Focus through Complementary Goals Can Improve Taxpayer Satisfaction and Reduce Operating Costs (see page 7).

Each success area focuses on implementing the customer-driven service being emphasized by the President and the Congress.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Increased Emphasis on Executive Branch and Congressional Initiatives Can Assist in Transforming the IRS Into a More Customer-Driven Agency

Subsequent to the issuance of a draft of this report, the IRS changed its Mission Statement. The following information is provided to show the importance of linking the Mission Statement to customer-driven strategic planning. The IRS has not developed a revised strategic plan as yet.

The goal of NPR is to create a government that works better and costs less.

Few agencies affect as many taxpayers as the IRS does each filing season. Both the President and the Congress are emphasizing customer service. The President has focused on reforming the way the federal government works. The goal is to create a government that “works better and costs less.” To accomplish the Presidential goals, the Vice President directed the NPR through several phases of initiatives.

NPR began in 1993 with the initial report *Creating a Government That Works Better and Costs Less*. To help promote the report, the President issued 16 executive directives by the end of 1993. One of the directives required agencies to set customer service standards.

The GPRA requires agencies to have strategic and performance plans, as well as to report results to the Congress.

At the same time, the Government Performance and Results Act of 1993 (GPRA) required federal agencies to develop strategic plans, establish an annual performance plan, and report performance results to the President and the Congress. The time line for implementing these requirements varies, but all should be implemented by the year 2000.

The GPRA required each agency to submit a strategic plan by September 30, 1997, covering at least five years for the agency’s program activities. The plan is to contain the mission, long-term goals and objectives, and strategies for achieving those goals and objectives. The plan is to be updated at least every three years and is to be the basis for goal setting and performance measures.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

We compared the overall direction being set by Executive and Congressional initiatives with the IRS strategic plans by reviewing two documents:

- The NPR Vision and Strategies for Customer-Driven Strategic Planning
- The IRS Fiscal Year (FY) 1998 Strategic Plan and Budget

The NPR Vision and Strategies for Customer-Driven Strategic Planning

The IRS has actively participated in both GPRA pilots and NPR initiatives.

The two major change initiatives, the GPRA and the NPR, are designed to transform the way government agencies deliver services. The IRS has actively participated in both the GPRA pilots and the NPR initiatives. The GPRA requires that strategic plans be developed and the NPR focus is on customer-driven organizations.

A customer focus is evidenced by Presidential actions. In 1993, the President issued an Executive Order requiring federal agencies to:

- identify customer bases; and
- determine from their customers the kind and quality of services they expect.

One NPR report is especially germane to the customer service topic. In February 1997, the *Federal Benchmarking Consortium Study Report on Best Practices in Customer-Driven Strategic Planning* was released. The study report serves as a tool for government leaders to adopt the best practices in customer-driven strategic planning.

The IRS FY 1998 Strategic Plan and Budget

The IRS is a leader in government use of the strategic management process.

The IRS has been a leader among federal agencies in strategic management and the use of a strategic management process. The IRS has taken steps to integrate planning, budgeting, performance measures, and program evaluation. The IRS started the integrated planning process with the 1997 Strategic Plan and Budget and continued the conversion with the issuance

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

of the 1998 Strategic Plan and Budget. The Strategic Plans are designed to ensure compliance with the GPRA.

The Mission Statement is the focal point of the plan. The Mission had remained virtually the same since 1984. While the Mission met the GPRA requirements, the IRS recognized the difficulty in communicating the change to customer-focused strategy with a tax administration-oriented Mission Statement written in 1984. The Mission Statement was as follows:

“The purpose of the IRS is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness.”

The Mission Statement was more directed toward tax administration than customer service.

In a similar way, the Business Vision focuses on five areas:

- Providing alternative means of filing returns and paying taxes.
- Processing remaining paper returns more efficiently.
- Building and maintaining a robust technological infrastructure.
- Improving and accelerating compliance issue identification.
- Giving front-line employees immediate access to complete information and the modern tools to do their jobs.

Visions and values drive and direct best-in-class performers.

The Vision articulated the IRS’ viewpoint of tax administration. The Vision was appropriate for tax administration, but needed greater focus on identifying customers and their requirements for the kinds and quality of services. Visions and values drive and direct the **best-in-class** performers.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

The IRS has the opportunity to achieve a customer-driven strategic planning process.

The IRS has begun a process to identify customer satisfaction levels in several functions. The Director of the Strategic Planning Division planned to use contractor support to gather data on customer satisfaction in FY 1998.

To implement the NPR best practices for a customer-driven strategic planning process, the IRS needs to extend its data gathering to include the following actions:

- Examine products, services and processes through the eyes of the customer.
- Identify customers' preferences and requirements as well as their standards for performance and timeliness.
- Capture both spoken and unspoken preferences, standards and other industry practices.

Customer-driven strategic plans can provide the focus for functions to work towards the same goal.

Customer-driven strategic planning is dependent on this input.

Recommendation

1. Senior IRS executives should evaluate how the Strategic Plan and Budget can be more integrated with the NPR direction for customer-driven strategic planning. The evaluation should include an assessment of the Mission and Vision to ensure the IRS can communicate a customer-driven planning process that will direct and align the entire organization.

Performance measures and standards can then be aligned to focus the IRS on meeting customer requirements for the kinds and quality of services.

Senior executives should evaluate whether the Strategic Plan and Budget can be more directed toward customer-driven strategies.

Management's Response: Subsequent to the issuance of the draft report, and in accordance with similar NPR recommendations, the IRS changed the Mission Statement to read as follows:

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

“Provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

Office of Audit Comments: The IRS did not address all aspects of the recommendation in its response to the draft report. While changing the Mission Statement is an important step in changing the IRS, changing the other aspects of the strategic plan are also vital. The Commissioner has made performance measures one driver of change. However, the details of the performance measures were not available when IRS responded to a draft of this report.

Improved Customer Focus through Complementary Goals Can Improve Taxpayer Satisfaction and Reduce Operating Costs

When functions do not share complementary goals, functional efficiency can be achieved without considering organizational effectiveness.

The IRS’ ability to deliver NPR-defined, world-class customer service has been hindered by functions not sharing complementary goals and measures. The IRS approach to issuing refunds on paper-filed tax returns and its adverse impact on customer service toll-free telephone lines is an example of this condition.

The IRS has continued to study the relationship between paper return refund processing time frames and the toll-free telephone call volumes. Studies in 1992 and 1996 recommended accelerating refund processing to improve customer service. However, no changes have been implemented.

The 1997 IRS Customer Satisfaction Survey showed that 67 percent of taxpayers surveyed considered prompt refunds “really important.” At the same time, 47.5 percent of taxpayers were “very satisfied” with the length of time it was taking to receive a refund. The term “prompt refund” was not defined in the survey.

The ability of the IRS to deliver NPR-defined, world-class customer service has been hindered by non-aligned goals.

The IRS is re-examining its efforts to better identify customer expectations regarding refunds.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

In the past, IRS study recommendations to accelerate refund processing were not implemented because the IRS accepted the premise that taxpayers were satisfied with the time taken to issue refunds.

The 1997 filing season again showed that once a taxpayer files a refund return, many inquired about when they would receive the refund. Virtually all service centers processed refunds in the 40-day processing period goal. Therefore, approximately 58 million taxpayers who filed paper tax returns received their refunds in about six weeks.

Taxpayers can inquire about their refund status by either calling the automated TeleTax system or by calling the toll-free assistor lines. The two systems combined call volume exceeded 132 million calls during the filing season. IRS answered 85 million of these calls. At a minimum, 52 percent of all calls answered are refund inquiries. An estimated \$22.4 million¹ was expended just to answer refund calls.

A minimum of 52 percent of all calls answered are refund inquiries.

Based on the volume of calls for this purpose, taxpayers are apparently concerned about the status of their refunds. Between January 1, 1997, and the week of April 5, 1997, there were 62.1 million attempted calls to the automated TeleTax system. Approximately 24.6 million callers (40 percent) received a busy signal. Over 85 percent of the 37.5 million answered calls were refund inquiries. If 85 percent of all call attempts were refund inquiries, then there is a high probability that approximately 53 million calls during the 1997 filing season were refund inquiries.

Additionally, the unanswered calls affect customer and stakeholder perceptions of the IRS. Telephone access was cited as the second most pressing problem facing the IRS in the *Taxpayer Advocate's Annual Report to Congress FY 1996*.

¹ This figure represents the estimated costs based on budget information provided by Customer Service. The actual cost of refund calls is not tracked. The cost is only the time actually expended on a call, and no overhead time is included.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Expanding the telephone system is costly. Reducing demand would achieve the same results with no additional costs.

In our opinion, continually expanding and/or upgrading the telephone system is the high cost solution. Conversely, reducing telephone call volume would achieve the same results with no additional costs. However, reducing the number of telephone calls received will require a coordinated strategy by both Submission Processing and Customer Service.

Short Term Strategies

The challenge is to identify ways to accelerate refund processing without re-engineering paper tax return processing. The NPR change methods for rescoping current processes and cooperating with internal and external stakeholders are the appropriate models.

The IRS has opportunities to significantly decrease the length of time needed to issue refund checks.

Depending on the actions taken, the IRS could significantly reduce the time needed to issue refund checks. The audit identified estimated time savings ranging from several days to several weeks. Although the primary thrust of these efforts is to improve customer service and reduce demand on toll-free assistance, there are also some cost reductions. Short-term strategies that could be in place in the near future follow.

Accelerating the processing cycle for paper-filed refund tax returns

The IRS' 40-day measure to issue refunds creates a barrier to accelerated refund processing.

Currently, the IRS' performance measure for issuing refunds on paper-filed tax returns is targeted at 40 days. In 1997, service centers generally achieved this goal. However, this measure creates a barrier to processing refunds more timely because the measure focuses on optimizing the efficiency of service center processing operations as opposed to the delivery of customer service. At certain times, service centers may extend their time frames for working refunds to meet this measure. This measure illustrates how the service centers have no incentive to improve customer service by reducing the processing time.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Service centers have no incentive to improve customer service by reducing the processing time.

The 40-day time standard has remained unchanged for several years, even though the IRS' response to the NPR in 1993 cited actions to be taken to speed refunds to taxpayers. Other IRS studies have made similar recommendations; but the processing system has remained virtually unchanged.

Processing refund returns in five- to seven-day cycles whenever possible

Service center processing guidelines provide for some management discretion in the time frames for working refund returns. Generally, service centers attempt to process refund returns in one to three cycles (a cycle is a week of processing). Service center managers indicated that the potential exists for processing refund returns more quickly; however, such actions would conflict with the 40-day performance measure, which emphasizes efficiencies in workload management.

The IRS needs to balance the cost savings of not accelerating refunds against responding to refund inquiries.

Service center processing takes up to 20 days of the 40-day standard for issuance of refunds on paper-filed tax returns. The other time portion is with Martinsburg Computing Center (MCC) processing and issuing the refund. The IRS needs to balance the cost savings of not accelerating refund issuance against the extra costs incurred by Customer Service in responding to refund inquiries.

Extending the weekly cycle cut-off date for refund returns

Currently, service center weekly processing cycles end on Thursdays. The accounts are then balanced and computer runs are perfected prior to data transmission to the MCC. The opportunity exists for service centers to meet a Friday cut-off date. However, the change would add minimal extra staff costs and reduce the service center time buffer for providing data to MCC. The time buffer is used so that errors can be corrected and time frames can still be met.

Service centers are measured on their ability to meet cycle cut-off dates. Service center managers indicated that there would be concern that without the extra day,

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

The benefit of an extended cut-off date would accelerate refunds to 20 percent of the taxpayers by 1 week.

this performance measure may not be met. Again, functional goals are at odds with customer service goals.

The Friday cut-off would allow approximately 20 percent of taxpayers due refunds (1 of 5 day's work) to receive their refunds one week earlier than they do now. Thus, the service centers and the MCC have the opportunity to change methods and procedures to improve the level of service to taxpayers.

Examine MCC and Financial Management Service (FMS) processing to identify how time frames for issuing refunds could be shortened

In May of each filing season, the IRS coordinates with the FMS to accelerate refund check issuance. The FMS is the Treasury agency that issues the refunds. This effort helps the government avoid incurring interest expenses on tax refunds not issued by the 45-day interest free period for processing timely filed returns allowed by law.

There is evidence that the MCC and FMS time frames for processing refunds can be shortened.

These accelerated time frames are evidence that the MCC and FMS time frames for processing refunds can be shortened. For example, the MCC might adjust the way it accumulates refund transactions and forwards the authorization data to the FMS.

In another example, MCC cycle processing schedules show release dates for "direct deposit" refunds to be 10 days prior to the "assessment" posting date. An assessment posting date is the date of record for the tax liability. All other refunds are not scheduled for issuance until three days prior to the "assessment" date. If the rationale for expediting the "direct deposit" refunds can be applied, an opportunity exists to reduce refund issuance time by seven days for the paper refund checks that are mailed to taxpayers.

Similar opportunities may exist for FMS processing. For example under existing procedures, after receiving authorization data from the MCC, the FMS has 10 days to issue refund checks.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

The IRS recognized the potential for expediting refunds. However, there has been no appreciable progress in achieving this NPR initiative.

The IRS recognized the potential for expediting refunds in an action plan for implementing NPR recommendations. However, there has been no appreciable progress in accelerating refunds to taxpayers. An obstacle to accelerating the process is the IRS' use of part of the FMS time lag to identify and stop erroneous refunds. However, the advantage of this delay needs to be balanced against the adverse impact on customer service and toll-free telephone demand.

The preceding strategies would create an opportunity to better assess the impact of more timely refunds on increasing customer satisfaction and reducing demand on toll-free services.

With minimum impact on service center operations, current IRS research efforts would be provided with analogous data for developing long-term strategies. The IRS would set a two-year time frame for collecting customer data related to refunds. Given this time frame, the IRS would be able to evaluate the incremental value of any implemented changes. This information would then be available prior to recommending more extensive modifications to the existing process.

Recommendation

2. The Assistant Commissioner (Customer Service), in cooperation with the Assistant Commissioner (Forms and Submission Processing), should evaluate and implement appropriate initiatives for accelerating issuance of refunds to taxpayers. These actions should include, but not be limited to, the following:

- Implementing, on at least a test basis, a service center accelerated five- or-six-day cycle time for processing refund returns.
- Modifying current processing time frames to encourage service centers to extend weekly cycle cut-off dates to Friday.
- Negotiating with the MCC and the FMS to identify and take advantage of opportunities

IRS functions can accelerate refunds by aligning goals and by coordinating with external stakeholders.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

for reducing time taken to authorize and issue refunds.

- Focusing the performance measurement for refund issuance on customer service by creating the incentive to minimize the days taken to provide taxpayers with their refund checks.

Management's Response: Management plans no corrective actions to change the service center processing cycle time frames for paper refund returns based on their interpretation of the Restructuring and Reform Act of 1998.

During the Mainframe Consolidation Process, management will reassess the Audit recommendation to modify cycle processing time from Thursday to Friday. A Request for Information Services has been prepared to make the necessary changes to issue refund checks on error-free returns at the same time as direct deposit refunds. Completion of this action is contingent upon acceptance of the Request for Information Services by Information Systems and Financial Management Service. This change would affect 7.4 million electronic filers and 65 million individual and business filers. The government could save up to \$150 million in interest payments.

Management plans no corrective actions to focus performance measures on minimizing refund issuance time frames based on their interpretation of the Restructuring and Reform Act of 1998.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Long Term Strategies

Reconsidering the establishment of a Taxpayer Profile database file for authorizing accelerated issuance of taxpayer refunds

In 1996, an IRS task force recommended an express tax refund program modeled after the state of Virginia's program used for the past nine years. This proposal involved a taxpayer account verification system capable of authorizing the issuance of refunds in half the time normally needed. However, the IRS rejected this recommendation. After the state of Virginia experienced an initial decrease in refund calls, call volumes rose to previous levels.

Likewise, in 1992, the Service Center Reorganization Study recommended the establishment of a Summary Account Record (SAR). This SAR was envisioned to include entity and account history that would be available on-line. The SAR benefits included:

- Reducing data transcription costs.
- Authorizing the accelerated release of refund checks.
- Accomplishing “one stop service.”
- Consolidating multiple issues into single notices.

Our position is that a year-to-year rollover of entity and refund information could be used to accelerate refunds and reduce processing costs. The potential benefits both in decreased costs and improved customer service would outweigh the cost of the system and the risks associated with accelerating the refunds.

Development of a taxpayer profile database would create opportunities for the IRS not only to expedite refunds, but also to implement the more efficient and effective “one stop service” initiatives that are part of the IRS’ long-term strategies.

The Service Center Reorganization Study recommended developing an on-line taxpayer record that would assist in accelerating refunds and provide better service to taxpayers.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Recommendation

3. The IRS should initiate efforts to reevaluate prior IRS recommendations and develop a strategy for implementing a taxpayer profile system. This would minimize risks while making the information available for accelerated refund issuance and “one stop service” programs.

Management’s Response: By June 1999, the IRS will reevaluate prior IRS recommendations and determine if there is a need to develop a taxpayer profile system.

Conclusion

Few agencies have a greater opportunity to serve the public than the IRS. The IRS delivered the 1997 filing season with proficiency and quality; however, in a changing environment even more is expected. Customer needs and expectations have to be understood. Strategic plans can then be developed to deliver high quality products and services to customers through better, faster, and cheaper programs. The Government Performance and Results Act of 1993, the National Performance Review, and related Executive orders provide the framework to transform the IRS into a more customer-driven and customer-focused agency.

The IRS has the opportunity to move to the forefront on customer-driven strategic planning. The Mission Statement and Business Vision need to communicate to customers, stakeholders, and employees the IRS commitment to focus on the needs and expectations of the customer. Once the customer-driven strategic planning process is implemented, performance measures can be developed to ensure the organization is aligned and focused to serve the customer.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

Appendix I

Detailed Objective, Scope and Methodology

The objective of this audit was to evaluate whether the Internal Revenue Service's (IRS) operations are making progress towards meeting business visions and strategies. We assessed whether the IRS has included in its strategies the requirements to provide customer service established by statute and Executive Order.

To accomplish the objective, the following audit steps were performed.

- A. Assessed whether the IRS had included in its strategies the requirements established by Statute, e.g., the Government Performance and Results Act, and by Executive Orders to provide customer-focused service to taxpayers. Also, compared and contrasted the National Performance Review Vision and Strategies for Customer-Driven Strategic Planning with the IRS' Fiscal Year (FY) 1998 Strategic Plan and Budget.
- B. Interviewed IRS executives and management personnel from various National Office operations, including Customer Service, Submission Processing, and Management and Administration to gain insight into their concerns and to develop viable, pragmatic solutions to the concerns identified. Also, discussed insights and concerns with management personnel at the Philadelphia Service Center and with other stakeholders, including the United States Postal Service.
- C. Reviewed efforts to assess prior Internal Audit (now Office of Audit, Treasury Inspector General for Tax Administration) reports and General Accounting Office audit reports regarding filing season topics to develop potential leads and areas for possible follow-up.
- D. Identified and reviewed IRS and management studies related to Customer Satisfaction and Expectations, as well as other filing season topics, to develop potential leads. Efforts included reviews of the Service Center Reorganization Study (1992), the IRS Rescoping IRS Business Operations (1995), and the Express Refund Initiative (1996).
- E. Reviewed the results of the following Office of Audit 1997 Filing Season Readiness reviews to identify any recurring themes which warrant executive level attention:
 - *Review of the Customer Service Toll-Free Telephone System Filing Season Readiness* (final report issued 11/20/97)
 - *Taxpayer Walk-in Program for the 1997 Filing Season* (final report issued 12/22/97)

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

- *Tax Season On-Line* (final report issued 1/16/98)
- *Revenue Protection Processing of Invalid and Duplicate Social Security Numbers* (final report issued 2/20/98)
- *Effectiveness of Invalid Primary SSN Processing* (final report issued 5/7/98)
- *Review of the Individual Taxpayer Identification Number Program* (draft report issued 4/24/98)

**The Internal Revenue Service Can Improve Customer
Service by Accelerating Refund Payments**

Appendix II

Major Contributors to This Report

Kerry R. Kilpatrick, Regional Inspector General for Audit

Philip Shropshire, Deputy Regional Inspector General for Audit

Leon Niemczak, Senior Auditor

Hillary Chybinski, Auditor

Carol Gerkens, Auditor

Anthony Saranchak, Auditor

**The Internal Revenue Service Can Improve Customer
Service by Accelerating Refund Payments**

Appendix III

Report Distribution List

Chief Operations Officer OP

Chief Information Officer IS

Taxpayer Advocate C:TA

Assistant Commissioner (Customer Services) OP:C

Assistant Commissioner (Forms and Submission Processing) OP:FS

National Director for Legislative Affairs CL:LA

Office of Management Controls M:CFO:A:M

**The Internal Revenue Service Can Improve Customer
Service by Accelerating Refund Payments**

Appendix IV

Management's Response to the Draft Report



CHIEF OPERATIONS OFFICER

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

February 3, 1999



MEMORANDUM FOR ACTING TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Chief Operations Officer

SUBJECT:

Internal Audit Draft Report – Executive Compilation and
Interpretation of the 1997 Filing Season (MIS #970076)

This memorandum is in response to the draft report referenced above. Should your staff require additional information, they may contact the Customer Service Internal Audit Liaison, Larry Pugh, at 202-622-9466.

We are limited in our ability to pursue the report recommendations to accelerate taxpayer refunds resulting from the processing of paper returns. Language in the Restructuring and Reform Act legislation passed last year directs the Service "... to establish a strategic plan to eliminate barriers, provide incentives, and use competitive market forces to increase taxpayer use of electronic filing while maintaining processing times for paper returns at 40 days." We interpret this directive as allowing us to continue to explore ways to optimize paper return refund timeliness, but precluding us from making wholesale systems changes to minimize the time associated with generating refunds for paper returns. As a result, we are not addressing each of your recommendations in this area in significant detail.

Identity of Recommendation/Finding #1:

We suggest that the senior Internal Revenue Service (IRS) executives evaluate whether the Strategic Plan and Budget can be more integrated with the National Performance Review direction for customer driven strategic planning. We suggest that the evaluation include an assessment of the Mission and Vision to ensure we can communicate our customer driven planning process, which will direct and align our entire organization.

Assessment of Cause(s):

IRS has been a leader within government in Strategic Planning. The Mission Statement was focused on agency responsibilities for tax administration. The changes in government caused by recent initiatives and laws changed the focus of IRS from tax administration to a broader perspective to include the services to taxpayers.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

2

Corrective Actions:

Subsequent to the issuance of this draft report, and in accordance with similar recommendations, IRS has unveiled a new Mission Statement that reads as follows:

“Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

Implementation Date: Completed: September 1998

Identity of Recommendation/Finding #2:

The Assistant Commissioner (Customer Service) in partnership with the Assistant Commissioner (Forms and Submission Processing) should evaluate and implement appropriate initiatives for accelerating issuance of refunds to taxpayers. These actions should include, but not be limited to:

- 2a.** Implementing, on at least a test basis, a service center accelerated five or six day cycle time for processing refund returns;
- 2b.** Modifying current processing time frames to encourage service centers to extend weekly cycle cut off dates to Friday;
- 2c.** Negotiating with Martinsburg Computing Center (MCC) and Financial Management Service (FMS) to identify and take advantage of opportunities for reducing time taken to authorize and issue refunds; and
- 2d.** Focusing the performance measurement for refund issuance on customer service by creating the incentive to minimize the days taken to provide taxpayers with their refund checks.

Assessment of Cause(s):

- 2a.** Service centers only partially control refund issuance time frames. Paper refund checks, the most common form of refunds, are issued 15 days after the completion of a service center processing cycle. Therefore, refund checks issued within 40 days involve returns processed in the service center within 25 calendar days of receipt.

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

3

Cycle lengths must be carefully balanced with staffing needs to ensure that returns are processed to minimize costs and maximize customer satisfaction. Each center has the latitude within established guidelines to set the cycle lengths appropriate to balance their workload and staffing.

Corrective Actions:

No corrective action is needed due to the Restructuring and Reform Act of 1998.

Implementation Date: N/A

Responsible Officials: N/A

Assessment of Cause(s):

- 2b. Extending the weekly service center processing cutoffs to Friday would speed refunds. It was for this reason that we moved the weekly cutoffs from Wednesday to Thursday in late 1996. This and other cycling issues will be addressed as an integral part of our Mainframe Consolidation efforts. It will be more efficient to build the needed logistics into a new system at two sites than to retrofit our legacy systems in ten sites.

Corrective Actions:

Submission Processing will reassess cycle processing during the Mainframe Consolidation Process. We will coordinate with Information Systems to negotiate a Service Level agreement for nationwide programs.

Implementation Date: Proposed: March 1, 1999

Responsible Officials:

Chief, Paper Processing Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)
Chief Operations Officer

Assessment of Cause(s):

- 2c. The National Director, Submission Processing, initiated an effort in late 1997 to accelerate the issuance of most paper refund checks by seven to 11 days by coordinating with MCC and FMS. This initiative (which will accelerate paper

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

4

refund checks for 7.4 million electronic filers and 65 million individual and business paper filers) will improve our service to taxpayers, save up to \$150 million in interest payments, and resolve the conditions cited in the report. To ensure that we do not sacrifice refund quality for refund speed, we do not plan to accelerate those refunds currently subject to quality reviews in the service centers after return posting.

In addition, some adjustments must be made to accelerate the systemic and manual procedures for the identification and prevention of questionable refunds. Accelerating the paper refund checks may complicate the process of preventing the issuance of a portion of questionable refunds.

Corrective Actions:

Submission Processing has prepared a Request for Information Services (RIS) requesting that MCC and FMS make the scheduling changes necessary to issue paper checks on error-free returns at the same time as direct deposit refunds. Completion of this action is contingent upon acceptance of the RIS by Information Systems and FMS.

Implementation Date: Proposed: June 1, 1999

Responsible Officials:

Chief, Paper Processing Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)
Chief Operations Officer

Assessment of Cause(s) and Corrective Action(s):

2d. Because of the language in the Restructuring and Reform Act of 1998, we cannot agree with this recommendation.

Implementation Date: N/A

Responsible Officials: N/A

Identity of Recommendation/Finding #3:

IRS should initiate efforts to reevaluate prior IRS recommendations and develop a strategy for implementing a taxpayer profile system. This would minimize risks while

The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments

5

making the information available for accelerated refund issuance and "one-stop service" programs.

Corrective Actions:

IRS will reevaluate prior IRS recommendations and determine if there is a need to develop a taxpayer profile system.

Implementation Date: Proposed: June 1999

Responsible Officials:

Assistant Commissioner (Forms and Submission Processing)
Assistant Commissioner (Customer Service)