COMMISSIONER

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

May 23, 2000

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Treasury Inspector General for Tax Administration (TIGTA) Draft Report-GPRA: The Examination Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measure (Audit No. 199910109)

Thank you for the opportunity to respond to your draft report entitled "GPRA: The Examination Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measure." The review assessed the validity of the customer satisfaction measure for the Examination Division. It also assessed the division's inventory controls to ensure all cases were included in the sample population and the controls over the computer program that selects the survey population were adequate.

We were pleased your review concluded Examination's inventory system did not contain any internal control weaknesses that might invalidate the survey population. Your review confirmed the validity of survey population and the related data being compiled for the survey. We were also pleased your review determined that we have adequate controls over the production and shipment of taxpayer information to the research company conducting the surveys for the Internal Revenue Service (IRS).

We agree with the recommendation to describe the customers surveyed and related results, including limitations of the sampling process -- like those discussed in your draft report. We also agree with your recommendation to increase our response rate to get closer to our 70 percent goal and are continuing our efforts to do so.

The Fiscal Year (FY) 1999 Annual Program Performance Report (APPR) was submitted with the FY 2001 Congressional Budget Justification on February 7, 2000, before we received your findings on February 14 or draft report on March 9, 2000. Therefore, it is too late to revise the FY 1999 APPR. We will, however, disclose all pertinent limitations, if any, in the FY 2000 APPR.

In addition, we respectfully request a change in the language in the report which recommends we include information "in detail" on the limitations of the survey. We believe the phrase "in detail" is too broad. While we concur with the need for and will provide more disclosure, such language could be overly prescriptive and restrict our discretion and flexibility in writing the APPR.

Finally, we appreciate the opportunity to clarify the confusion regarding whether the Examination Division's innocent spouse claim cases were excluded from the survey population. These cases have been established on the Audit Information Management System (AIMS) and examined return disposal codes are used to close them. This procedure follows the current practice of establishing all Examination cases on AIMS, if possible, and using appropriate closing codes. We issued guidelines to this effect in a memorandum dated May 18, 1999, on District Examination Procedures on Relief from Joint and Several Liability Cases. We hope this information is useful in clarifying this section of the draft report.

Although not part of the review's objectives, we believe it is important to note the division has already begun using the survey results to improve customer satisfaction. Specifically, the North Central District conducted a pilot project to analyze their data and develop action plans to address taxpayer concerns. One of their key recommendations addressed taxpayer concerns regarding the fairness and timeliness of the audit process. A group managers' workshop was developed to improve inventory management skills. It will be given to general program group managers at an upcoming All Managers' Meeting later this year. We believe such efforts make the customer satisfaction measurement process invaluable to the IRS and all taxpayers.

Thank you for the benefit of your input. We look forward to working with you in the future to improve the quality of Examination Customer Satisfaction Survey.

Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION #1

Include, in detail, in the FY 1999 Annual Performance Report the limitations of the sampling procedures and the plans and timelines to correct the issues. The data from the current reports should not be used without a very clear explanation of its limitations, to include the following:

- Report that the survey population is based solely on the closures of individual taxpayers. Audit closures involving corporate, estate, excise, and gift tax returns are not included in the survey population.

- Report that the measure does not include contacts that the Examination Division had with individuals that did not result in an audit closure.

ASSESSMENT OF CAUSE:

Periodic reports issued by the Office of Performance Evaluation and Risk Assessment (OPERA) on survey results for the division state the survey population was limited to individual taxpayers. For example, information about the limited scope of the survey can be found on page 8 of National Report of IRS Customer Satisfaction Survey for Examination issued in January 2000. Future reports of the survey will disclose the limitation as close to the front of the report as practicable.

For the Examination customer satisfaction survey, we decided to limit the first survey to individuals as they represent over 80 percent of the examinations conducted and are often part of related examinations of other types of returns (e.g., corporate, excise, gift). In addition, these taxpayers appeared to have the greatest concerns with Examination issues based on feedback from the Congress and National Taxpayer Advocate.

Consistent with our commitment to measure and improve service to customers, we will add additional customer segments over time, to the IRS' customer satisfaction measurement program. Moreover, we will expand the customer satisfaction measurement program based on the need for and value of the information to be gained relative to the associated taxpayer burden and resource requirements imposed.

CORRECTIVE ACTIONS:

The FY 1999 APPR was submitted to the Congress before we received this recommendation. We will, therefore, include information in the FY 2000 APPR regarding the limitations of the survey as well as our plans to include other customer segments in the survey process. Specific plans will be developed to include corporate taxpayers in the survey process as part of the measurement systems in the Small Business/Self-Employed and Large and Mid-Sized Business units.

IMPLEMENTATION DATE(S):

PROPOSED – April 1, 2001 for issuance of FY 2000 APPR (Note: this date could change if the due date for transmittal of the APPR is amended or revised.)

RESPONSIBLE OFFICIAL(S):

Director, Office of Program Evaluation and Risk Analysis, Assistant Commissioner (Examination), and National Director, Compliance Specialization.

CORRECTIVE ACTION(S) PLAN MONITORING:

Review of the FY 2000 APPR

IDENTITY OF RECOMMENDATION #2

Develop methods to increase the survey response rate to the IRS' mandated 70 percent. Disclose in the FY 1999 Annual Performance Report that the response rate is only 34 percent and the efforts being made to meet the IRS requirements. One possible approach to accomplishing this would be to contract with the vendor to conduct a telephone survey of taxpayers not responding to the mail survey.

ASSESSMENT OF CAUSE:

The 70 percent response rate from the Internal Revenue Manual is a goal which we try to attain. In fact, section 1282.72 *Missing Data* states, "[b]ecause non-response is a cause of non-sampling error, all personnel conducting surveys should use follow-up letters to try to achieve at least a 70 percent response rate." We do not consider this a mandate or requirement, but instead a goal. We are able to get relatively close to the goal for surveys conducted by telephone. For surveys conducted by mail, however, we have encountered more difficulty achieving this goal since taxpayers are required to take the initiative to complete and return the surveys on their own. The division's response rate of 34 percent, while well below our goal, nevertheless falls within industry norms for response rates for this type of survey.

Even so, to encourage taxpayers to respond to these voluntary surveys, the IRS currently employs an independent research firm that contacts taxpayers up to four separate times in a 45-day period. In developing the surveys, the IRS feels increasing the number of contacts would not significantly improve survey response rates and would impose additional burden and concern on taxpayers who do not respond to the surveys. We are continually looking for cost effective ways to increase our response rate. We agree with the suggestion in the draft report to perform various analyses of the survey results to better understand the profiles of the respondents as well as the non-respondents.

CORRECTIVE ACTIONS:

The FY 1999 Annual Program Performance Report was submitted to Congress before we received this draft report. We will, therefore, include information in the FY 2000 APPR regarding the survey response rate and planned actions to increase the response level. Contact will be made with the vendor to explore methods to increase the response rate while being sensitive to taxpayer concerns regarding privacy.

IMPLEMENTATION DATE:

PROPOSED - April 1, 2001 for issuance of FY 2000 APPR. (Note: this date could change if the due date for transmittal of the APPR is amended or revised.)

RESPONSIBLE OFFICIAL:

Director, Office of Program Evaluation and Risk Analysis, Assistant Commissioner (Examination), and National Director, Compliance Specialization.

CORRECTIVE ACTION MONITORING PLAN:

Review of the FY 2000 Annual Program Performance Report

If you have any questions or need additional information, please call me, or a member of your staff may contact Thomas W. Wilson, Jr., Assistant Commissioner (Examination), at (202) 622-4400.