

**Opportunities Exist to Improve the Efforts of
the Taxpayer Education and Communication
Organization to Assist Small Businesses in
Understanding and Fulfilling Their Tax
Obligations**

August 2005

Reference Number: 2005-30-132

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 25, 2005

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Opportunities Exist to Improve the Efforts of
the Taxpayer Education and Communication Organization to
Assist Small Businesses in Understanding and Fulfilling Their
Tax Obligations (Audit # 200330044)

This report presents the results of our review of the Small Business/Self-Employed (SB/SE) Division Taxpayer Education and Communication (TEC) organization. The overall objective of this review was to evaluate the effectiveness of current efforts by the TEC organization to assist small businesses to understand and fulfill their tax obligations.

In summary, the TEC organization has made significant progress in reaching out to the small business taxpayer community to educate small business taxpayers on their tax and compliance responsibilities. The TEC organization has performed its mission primarily by establishing partnerships with practitioners, trade associations, small business associations, and government agencies. The TEC organization has received credit for many accomplishments during Fiscal Year (FY) 2004. Among them was the completion of several burden-reduction initiatives involving various Internal Revenue Service (IRS) tax forms, the establishment of tax centers on major web sites, and the 8,000 practitioner visits made during FY 2004 that helped to increase the number of electronically filed tax returns. However, there are areas where the TEC organization needs to improve.

The TEC organization needs to do a better job of marketing its products, especially for those business taxpayers who are not served by the tax practitioner community. Well intended TEC organization products do not reach all of their intended audience, and some small business taxpayers may not be made aware of important information to assist them with their tax obligations. In addition, there was no continuity or consistency

in situations where some third parties' web sites linked back to the IRS web site. In some instances, no link was provided for taxpayers to learn about their Federal tax obligations while researching or browsing at a State government's tax web site.

Also, we were unable to evaluate the TEC organization's performance in fulfilling its mission because the goals and measures established by SB/SE Division management were not consistent with the mission statement established for the TEC organization at its inception. Some of the goals and measures established for the TEC organization were actually dependent on third parties for their measurement and accuracy.

We recommended the Director, Communications, Government Liaison and Disclosure, review the marketing of TEC organization products on the Internet, and formulate a strategy to increase their visibility. We also recommended the Director review the budgetary and performance measures established for the TEC organization and determine if they are still applicable to the stated mission of the organization.

Management's Response: The Commissioner, SB/SE Division, agreed with our recommendations. The SB/SE Division has established a new web services branch under the Director, Communications, which will develop a strategy for enhancing the utilization of TEC organization products on the Internet. The Commissioner, SB/SE Division, has developed and published a Program Letter that lays out the mission of the new TEC organization, which has been renamed the Stakeholder Liaison Field Operations organization. The SB/SE Division is currently developing new measures that will reflect the redefined goals and strategies of the Stakeholder Liaison Field Operations organization. Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Curtis W. Hagan, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Opportunities Exist to Improve the Efforts of the Taxpayer Education and Communication Organization to Assist Small Businesses in Understanding and Fulfilling Their Tax Obligations

Background

During the Internal Revenue Service's (IRS) reorganization in October 2000, the Small Business and Self-Employed (SB/SE) Division was created. This operating division was formed to address various issues affecting small businesses and self-employed taxpayers, such as filing tax returns and paying taxes.

The group of taxpayers the SB/SE Division currently serves includes self-employed individuals or other businesses with total assets under \$10 million. The profile of the SB/SE Division's taxpayer population as provided by the IRS is as follows:

- Approximately 45 million taxpayers.
- About 33 million fully or partially self-employed.
- About 7 million small businesses with total assets under \$10 million.

Within the SB/SE Division, three operating organizations were created: Taxpayer Education and Communication (TEC), Customer Account Services, and Compliance. The TEC organization was designed to serve small businesses and self-employed taxpayers primarily through efforts to better educate them about their tax obligations.

This review was performed at the Brookhaven, New York, IRS Campus¹ and at the TEC organization Headquarters in New Carrollton, Maryland, during the period August 2004 through May 2005. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Opportunities Exist to Improve the Efforts of the Taxpayer Education and Communication Organization to Assist Small Businesses in Understanding and Fulfilling Their Tax Obligations

The Taxpayer Education and Communication Organization Has Made Significant Progress in Reaching Out to the Small Business Taxpayer Community

The TEC organization was formed as a result of the IRS' reorganization in October 2000. From the IRS web site (irs.gov) the TEC organization is described as a segment of the SB/SE Division that:

...is a customer-focused organization that routinely will solicit information from taxpayers and external stakeholders concerning the needs and characteristics of its customers. TEC will implement its programs based on that feedback mechanism and will continuously research and analyze taxpayer trends to ensure that products and services are tailored to meet the needs of SB/SE taxpayers. TEC also will partner with other government agencies, state and local entities to provide one-stop assistance.

The TEC organization has developed channels for communicating with over 75 percent of SB/SE Division taxpayers through practitioner and payroll associations. It also provides tax law education and information on IRS policies, programs, and procedures through IRS Tax Forums, conferences, trade shows, Practitioner Forums, Tax Talk Today,² CD-ROM, and video presentations. In 2002, the TEC organization was named the Small Business Administration's Agency of the Year for its outstanding progress in creating an effective education and compliance assistance program for small businesses and the self-employed.

The TEC organization was credited with the following accomplishments during Fiscal Year (FY) 2004:

- TEC organization employees made more than 8,000 practitioner visits during FY 2004, which resulted in a 25 percent increase in the number of electronically filed tax returns.

² Tax Talk Today is a live Internet program co-sponsored by the IRS and L&M Production Design Group featuring tax experts, professionals, and top representatives from the IRS. Each program features discussions, real time interaction, and the opportunity for viewers to participate in the discussion by calling, emailing, or faxing in questions directly to the studio.

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- The TEC organization was instrumental in securing hundreds of tip and central withholding agreements.
- The TEC organization established tax centers on major IRS partners' web sites that significantly increased the SB/SE Division's outreach potential.
- The TEC organization made significant accomplishments in completing several burden-reduction initiatives involving various IRS tax forms.

In October 2004, the SB/SE Division offered current TEC organization employees an opportunity to volunteer to return to Revenue Officer, Revenue Agent, or Tax Compliance Officer positions within the SB/SE Division. More than 200 employees volunteered and, as a result, the organization has lost approximately 130 staff members (TEC Specialists and senior management) as of February 2005. This loss of staffing will affect the TEC organization's capability to reach the small business taxpayer community both now and in the future. However, the TEC organization has an opportunity to continue to reach many small business taxpayers despite this loss of staffing with some improvements to its practices and strategies.

The Taxpayer Education and Communication Organization Needs to Make Significant Improvements in Marketing Its Products

The TEC organization can do a better job of marketing its issue and industry-specific products that are currently available to its customers. While the TEC organization has worked closely with the Compliance operating unit to create these products, many of them are not easily or readily located by an ordinary taxpayer.

To accomplish its mission, the TEC organization has relied heavily on the partner relationships it has established with various stakeholder groups. The decision to work in this manner was made during the formation of the TEC organization as the result of a study done for the IRS by the management consulting firm Booz-Allen & Hamilton. The study showed that 73 percent of U.S. Individual Income Tax Return (Form 1040), Schedule C (Profit or Loss from Business) filers (self-employed individuals) used a preparer to complete their tax returns. Based on this information, a

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decision was made to leverage the limited resources of the newly established organization by using its external stakeholders as distribution channels to the small business taxpayer community.

As a result of these partnerships, much of the TEC organization's efforts have gone towards working with practitioners and small business organizations to identify systemic problems, provide liaison activities at the national and local level, and build a curriculum of basic educational products. This has resulted in some of the accomplishments noted previously.

The Internet has revolutionized the IRS' ability to serve taxpayers and their representatives. The IRS has used the Internet to meet taxpayer needs, provide better service, and reduce taxpayer burden. The IRS web site is one of the most frequently visited sites in the world. In recent testimony before the House of Representatives, the IRS Commissioner stated that the small business web site contained about 10,000 pages of content arranged by major industry groups and major tax areas. In January 2005, the site had 1.7 million visitors, which was more than double the number from January 2004.

However, during our review, we found the average taxpayer would not be able to easily locate information on a tax question or problem without some Internet familiarity or research experience. As an example, an excellent construction industry guide that answers many questions regarding payroll tax issues required us to access six different web pages before we could view the actual document. We also found there was no consistency regarding links provided by various State agencies to the IRS web site. For example, in the area of cosmetology, the various State licensing web sites did not provide a link to the IRS web page that also contained important Federal tax information for cosmetologists.

Tax professionals have their own link into the IRS web site.³ They also have the advantage of either a basic knowledge of

³ Tax professionals use the IRS' Internet web site irs.gov/taxpros/index.html for tax information and news.

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the subject area they are investigating or experience in researching tax questions on paper and the Internet. However, the IRS' own research has shown that approximately 25 percent of the small business taxpayer community does not use a practitioner.

Taxpayers should be able to locate the information they need or find answers to the questions they have in a quick, user-friendly manner. This reduces taxpayer burden and provides better service to all taxpayers.

We have located a new and innovative product that could assist the TEC organization in educating taxpayers, as well as some other products and areas that did not have sufficient coverage in regards to taxpayer education. These products and areas are:

- Newer and innovative Internet products should be considered for use by the TEC organization on the IRS web site. As an example, an interactive calculator was developed for the Office of Personnel Management to assist Federal employees in making decisions regarding contributions to a Flexible Spending Account.⁴ The calculator enables the employee to estimate the amount of tax benefit (both Federal and State) that he/she would receive from their contributions (see Appendix IV for a sample interactive calculator). A similar calculator that would estimate future tax liability would be beneficial to those taxpayers who are exploring the decision to start their own business.
- Greater marketing efforts are needed in regards to the franchising community. Statistics indicate that this is an area that has seen increased participation by taxpayers in the past few years. Our review could not identify any discussion of Federal tax obligations or links to an IRS web site that would cover that topic in the franchise web sites we visited.

⁴ A Flexible Spending Account is an account set up by an employee with pre-tax dollars to pay for certain out-of-pocket medical expenses.

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- The TEC organization needs to strive for some continuity or consistency in how links to Federal tax information are shown by the various State agencies they have partnered with. On some State web sites, the link to information was easily identified and noted while on others the link was on sub-pages and was difficult to locate or was not there at all. While the TEC organization cannot demand from its partners where the web link is placed, an overall strategy and agreement that defines where the web link should be placed could be developed to cover all partner State agencies.
- Educational products for various market segments, such as cosmetology and construction, should be made more visible to the casual small business Internet browser. These products were highly informative and easy to understand while still covering a range of tax topics. However, it took considerable research or web browsing to locate these products. The novice Internet user may not have the knowledge or time to make such a detailed search, so these items should be made more visible.

Recommendation

1. The Director, Communications, Government Liaison and Disclosure, should review the marketing of TEC organization products on the Internet and formulate a strategy to increase their visibility. In addition, innovative products found on other Internet web sites should be studied to determine if they would be appropriate for use by the TEC organization.

Management's Response: As part of the Communications, Liaison and Disclosure realignment, the Commissioner, SB/SE Division, has established a new web services branch under the Director, Communications, which will develop a strategy for enhancing utilization of TEC organization products on the Internet. Part of this strategy will include methods to increase Internet visibility and identify best practices from other Internet sites.

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The Taxpayer Education and Communication Organization Needs to Establish Goals and Measures That Are Reflective of Its Mission

The Government Performance and Results Act of 1993⁵ requires Federal Government agencies to establish a hierarchy of goals, objectives, and performance measures applicable to the organizational units within the agency. As a result, the IRS established three strategic goals:

- Improve Taxpayer Service.
- Enhance Enforcement of the Tax Law.
- Modernize the IRS through its People, Processes and Technology.

In 2000, the IRS implemented a new strategic planning and budgeting process that provided the framework for developing goals, objectives, and measures at the operating division level. Under this process, the operating divisions developed program plans that identified the division's strategic goals, which were to correspond to each of the agency-wide strategic goals. These division-level strategic goals were to be tailored to the specific characteristics and needs of the individual taxpayer segments served by the division.

The mission of the TEC organization within the SB/SE Division is:

...to educate and inform SB/SE taxpayers and representatives about their tax obligations by developing educational products and services focused on customer needs and by providing top quality pre-filing services to help taxpayers understand and comply with the tax laws.

In February 2001, the Government Accountability Office (GAO) issued a report⁶ on the IRS Performance Management System. During its review, the GAO reviewed various literature associated with performance management and came up with a set of characteristics that was used to evaluate goals, objectives, and performance measures (see Appendix V for an excerpt from the GAO report). We used

⁵ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

⁶ *IRS Should Enhance Its Performance Management System* (GAO/01-234, dated February 2001).

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these same characteristics to evaluate the goals and measures set by the SB/SE Division to evaluate the TEC organization during FY 2005.

The TEC organization officially has 5 Budget Level and 12 Program Level measures. It also maintained four other high-level measures for FY 2005. A complete listing of the measures is provided in Appendix VI but we have listed some representative measures below:

Budget Level Measures:

- Percent of Business Returns and Information Returns Received Electronically.
- Percent of Payments Received Electronically.
- Efficiency – R-Mail.⁷
- Number of Taxpayers Reached (Direct).

Program Level Measures:

- Customer Accuracy Rate - R-Mail.
- Number of Business Returns and Information Returns Filed Electronically.
- Number of Payments Received Electronically.
- Number of Taxpayers Reached (Indirect).

A review of the program and budget level measures shows that many of these measures do not directly relate back to the defined mission of the TEC organization. While electronic filing is both an ongoing focus and a specific goal of the IRS organizationally, it is not a specific area of responsibility for the TEC organization according to its mission statement. In addition, the TEC organization has established program measures that are not representative of the work or accomplishments of its own staff but of the work done by third parties. The organization has a program measure for the number of taxpayers reached (indirect) which is achieved by the various practitioner associations. Logically, this measure is questionable because it allows the

⁷ Taxpayers who call the Tax Help Line (1-800-829-1040) and ask more complex questions are transferred to the IRS' Referral Mail (R-Mail) Program. The R-Mail Program is designed to answer complex tax law questions via telephone, email, or correspondence within 3 workdays.

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TEC organization to take credit for the work of others, and it is also totally dependent on those practitioner associations for both measurement and accuracy.

The R-Mail Program is a budgetary and performance measure for the TEC organization. However, this program is a filing season program that, again, does not relate to the TEC organization's mission of education and information. Our review showed SB/SE Division management did not ensure the measures established for the TEC organization could be seen as directly related to its mission and would not provide management with information on the accomplishments of the TEC organization.

Recommendation

2. The Director, Communications, Government Liaison and Disclosure, should review the budgetary and performance measures and determine if they are applicable to the stated mission of the organization. If the mission of the TEC organization has changed in any manner, the mission statement should be updated to represent the changes and the goals, objectives, and performance measures should support that new mission.

Management's Response: The Commissioner, SB/SE Division, has developed and published a Program Letter which lays out the re-scoped mission of the new TEC organization, which has been renamed the Stakeholder Liaison Field Operations organization. The SB/SE Division is currently developing new measures that will reflect the redefined goals and strategies of the Stakeholder Liaison Field Operations organization.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of current efforts by the Small Business/Self-Employed (SB/SE) Division Taxpayer Education and Communication (TEC) organization to assist small businesses to understand and fulfill their tax obligations. To accomplish this objective, we:

- I. Reviewed the TEC organization's current and planned actions intended to assist small businesses to understand and fulfill their tax obligations.
 - A. Examined the TEC organization's visibility/consistency on the Internet by searching various State and local government, small business, and taxation web sites.
 - B. Reviewed the TEC organization's use of Internet products for innovation and effectiveness and identified best practices the organization may be able to adopt.
 - C. Determined the fastest growing types of businesses (e.g., franchising) and identified whether the TEC organization has or could partner with them.
 - D. Reviewed the information/products the TEC organization provides on the Internal Revenue Service (IRS) web site for reliability, quality, availability, and ease of comprehension.
 - E. Researched the TEC organization's current marketing strategies; e.g., Internet links to tax information, partnerships, and outreach in the field.
- II. Reviewed the TEC organization's existing goals and measures.
 - A. Researched the TEC organization's evaluation of the effectiveness of its efforts.
 - B. Reviewed the TEC organization's existing goals, objectives, and performance measures to determine if they are consistent with the IRS' mission and goals.
 - C. Reviewed the Government Accountability Office's report on IRS efforts to develop agency-wide and operating division goals, objectives, and performance measures that support the IRS' mission.
 - D. Researched SB/SE Division goals, objectives, and performance measures.

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Appendix II

Major Contributors to This Report

Curtis W. Hagan, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Robert K. Irish, Audit Manager

Bernard F. Kelly, Lead Auditor

Denise Gladson, Auditor

Nancy Van Houten, Management Auditor

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Communications, Liaison and Disclosure SE:S:CLD
Director, Stakeholder Liaison Field Operations SE:S:CLD:SLF
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S

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Appendix IV

Sample Interactive Calculator

This is an interactive calculator found at the following web site:
https://www.fsafeds.com/fsafeds/fsa_calculator.asp

Estimated FSAFEDS account balances and potential annual tax savings

Page 1 of 1

Example*	With Account	Without Account
If your taxable income is:	\$100000	\$100000
If you deposit this much pretax money into your Dependent Care FSA *	\$5000	\$0
If you deposit this much pretax money into your Health Care FSA *	\$4000	\$0
Your taxable income now is:	\$91000	\$100000
Subtract federal income, state income and Social Security taxes:	\$23861	\$27416
If you spend the same amount in after-tax dollars for eligible expenses:	\$0	\$9000
Your real spendable income will be:	\$67140	\$63585
Your tax savings with the Flexible Spending Account will be:	\$3555	
Your discount percent on your out-of-pocket eligible expenses by using an FSA:	40%	

This example is intended to demonstrate a typical tax savings based on the 2004 Federal Tax Rates. Actual savings will vary based on your individual tax situation. Additional savings of state and local taxes may be realized depending on where you live. For additional estimates of taxes and tax savings based on different income levels and retirement coverage, [click here](#). For more information, contact a tax professional.

The FSA account balance(s) used in this calculation will not exceed the FSAFEDS maximum of \$4,000 for HCFA and \$5,000 for DCFA, even though your actual annual expenses entered on the worksheet may exceed those amounts. If your actual expenses are lower than the annual limits the true amounts will be shown.

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Appendix V

Excerpt From a Government Accountability Office Report

The following is an excerpt from the Government Accountability Office (GAO) Report entitled *IRS Should Enhance Its Performance Management System* (GAO/01-234, dated February 2001).

Our assessment is not a review of IRS' compliance with the requirements of the Government Performance and Results Act (GPRA) of 1993.² Although IRS expects to use certain features of its performance management system to satisfy GPRA requirements, IRS developed the system primarily to meet its internal management needs. As a result, our assessment focused on whether the system met IRS' unique management needs. Our assessment is based on characteristics that we found associated with goals, objectives, and performance measures in the performance management literature, including GPRA.³ In particular,

- *goals*, which are broad statements of desired outcomes, should
 - reflect the agency's priorities,
 - provide a clear direction for future agency action,
 - identify what impact or outcome will result from an agency's work, and
 - form the basis for formulating clear objectives;
- *objectives*, which are targets that describe the end results a service or program is expected to accomplish in a given period of time to meet goals, generally should be
 - clearly stated,
 - specific,
 - measurable,
 - outcome or output oriented, and
 - consistent with the agency's mission and goals; and
- *performance measures or indicators*, which are often selected after goals and objectives are developed, should be
 - logically and directly related to the goals and objectives,
 - focus on expected outcomes or outputs, and
 - capture information relevant to the goals and objectives.

²P.L. 103-62. GPRA requires agencies to set goals, measure performance, and report on their accomplishments in their annual performance plans and annual program performance reports.

³The publications we reviewed included: OMB Circular A-11, Part 2, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports* (July 2000); *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review* (GAO/GGD-10.1.16, May 1997); *The Results Act: An Evaluators Guide to Assessing Agency Annual Performance Plans* (GAO/GGD-10.1.20, April 1998); Center for Accountability and Performance, *Performance Management: Concepts and Techniques*, 2nd ed. (1999); Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy Into Action* (Boston, Mass.: Harvard Business School Press, 1996); and National Partnership for Reinventing Government, *Balancing Measures: Best Practices in Performance Management* (August 1999).

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Appendix VI

**The Taxpayer Education and Communication Organization's
Budget and Performance Level Measures – Fiscal Year 2005**

Budget Level Measures:

- Percent of Business Returns Filed Electronically (Quarterly).
- Percent of Information Returns Filed Electronically.
- Percent of Payments Received Electronically.
- Efficiency – R-Mail.¹
- Number of Taxpayers Reached (Direct).

Program Level Measures:

- Percent Taxpayer Education and Communication (TEC) Full-Time Equivalents² to Total Small Business/Self-Employed Cross Unit Support.
- Customer Accuracy Rate - R-Mail.
- Number of New Voluntary Agreements.
- Number of Business Returns Filed Electronically (Quarterly).
- Number of Information Returns Filed Electronically.
- Number of Payments Received Electronically.
- Percent Federal Tax Deposit Payments Received Electronically (Electronic Federal Tax Payment System).
- Number of Taxpayers Reached (Indirect).
- Employee Satisfaction – TEC.
- TEC Customer Satisfaction – Activity/Event.
- TEC Customer Satisfaction – Rate Our Products.
- TEC Customer Satisfaction – Stakeholder Relationship Management.

Other Internal Measures for Fiscal Year 2005:

- Potential Revenue of the TIP/TRAC (Tip Reporting Alternative Commitment) Program and Centralized Withholding Agreements.
- Number of Lead Development Referrals.
- Number of Electronic 1040 C, E, and F Filers.
- Number of Viewings of Tax Talk Today.

¹ Taxpayers who call the Tax Help Line (1-800-829-1040) and ask more complex questions are transferred to the IRS' Referral Mail (R-Mail) Program. The R-Mail Program is designed to answer complex tax law questions via telephone, email, or correspondence within 3 workdays.

² Full-Time Equivalent (FTE) is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2004, 1 FTE was equal to 2,096 staff hours. For Fiscal Year 2005, 1 FTE is equal to 2,088 hours.

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Appendix VII

Management's Response to the Draft Report



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

RECEIVED
AUG 10 2005

August 3, 2005

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin M. Brown *KMB*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Opportunities Exist to Improve the
Efforts of the Taxpayer Education and Communication
Organization to Assist Small Businesses in Understanding
and Fulfilling Their Tax Obligations (Audit # 200330044)

We have reviewed your report and appreciate your recognition of the IRS Taxpayer Education and Communication (TEC) organization's accomplishments in educating small business taxpayers on their tax and compliance responsibilities. As you noted, TEC worked closely with practitioner and payroll organizations to reach the 75 percent of small business taxpayers who utilize practitioners in the preparation of their returns. In addition to 8,000 practitioner visits, TEC worked closely with associations representing millions of practitioners and small businesses to provide useful information that helped their members understand and fulfill their tax obligations.

As part of the TEC realignment with Communications and Liaison, we have rescoped TEC's mission, renamed it Stakeholder Liaison, and enhanced our ability to educate small business taxpayers. We are currently working on a number of initiatives with national practitioner associations to enhance communications and strengthen delivery channels to their members.

We agree with your specific recommendations. Our comments on your recommendations follow:

RECOMMENDATION 1

The Director, Communications, Government Liaison & Disclosure should review the marketing of TEC organization products on the Internet and formulate a strategy to increase their visibility. In addition, innovative products found on other Internet web sites should be studied to determine if they would be appropriate for use by the TEC organization.

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2

CORRECTIVE ACTION

As part of the Communications, Liaison and Disclosure (CLD) realignment, we have established a new web services branch under the Director, Communications, which will develop a strategy for enhancing utilization of TEC products on the Internet. Part of this strategy will include methods to increase Internet visibility and identify best practices from other Internet sites.

IMPLEMENTATION DATE

June 30, 2006

RESPONSIBLE OFFICIAL

Director, SB/SE Communications, Liaison and Disclosure

CORRECTIVE ACTION MONITORING PLAN

Director, Communications, will advise the Director, SB/SE Communications, Liaison and Disclosure, of any delays.

RECOMMENDATION 2

The Director, Communications, Government Liaison & Disclosure should review the budgetary and performance measures and determine if they are applicable to the stated mission of the organization. If the mission of the TEC organization has changed in any manner, the mission statement should be updated to represent the changes and the goals, objectives, and performance measures should support that new mission.

CORRECTIVE ACTION

We have developed and published a Program Letter which lays out the rescoped mission of the new TEC organization, which has been renamed Stakeholder Liaison. We are currently developing new measures that will reflect the redefined goals and strategies of the Stakeholder Liaison organization.

IMPLEMENTATION DATE

June 30, 2006

RESPONSIBLE OFFICIAL

Director, SB/SE Communications, Liaison & Disclosure.

CORRECTIVE ACTION MONITORING PLAN

Director, Stakeholder Liaison, with support from Director, Policy and Strategic Planning, will advise the Director, Communications, Liaison & Disclosure, of any delays.

If you have any questions, please call me at (202) 622-0600 or Beth Tucker, Director, SB/SE Communications, Liaison & Disclosure, at (202) 283-7407.