IRS Oversight Board Public Meeting
February 28, 2012

A SUMMARY OF DISCUSSION AND COMMENTS

OVERVIEW OF THE IRS OVERSIGHT BOARD PUBLIC MEETING

On February 28, 2012 the IRS Oversight Board conducted its annual public meeting with external stakeholders to listen to their comments and insights regarding the IRS and the tax administration system. Board Chair Paul Cherecwich, Jr. welcomed the attendees to the event. He said the meeting would consist of three panels where the panelists provided oral statements followed by questions from the Board and discussions related to the panel topic.

The Chair welcomed staff of the Government Accountability Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA), sitting in the front rows. He also welcomed IRS executives attending the meeting, which was held for the first time in the auditorium of the main IRS building. He then introduced Board member Ed Eck, moderator of the first panel.

This report summarizes the three panel discussions at the public meeting.

Panel 1: How Can Correspondence Audits be More Effective for the IRS and Less Burdensome for Taxpayers?

Moderator: Ed Eck, Chair, IRSOB Operations Support Committee
Panelists:

- *Patricia A. Thompson, Chair, Tax Executive Committee,* American Institute of Certified Public Accountants
- *Margaret E. Begg, Assistant Inspector General for Audit, Compliance & Enforcement Operations,* Treasury Inspector General for Tax Administration
- *Andre L. Re, Tax Controversy Consultant*, McDonough, Georgia
- *Lonnie Gary, EA, Partner,* Young, Craig & Co., LLP, Mountain View, California

Ed Eck welcomed the panelists and in his introductory remarks said that correspondence examinations have permitted the IRS to almost double its audit coverage rate. To the extent that an increased coverage rate promotes good tax administration, he said the correspondence examination must receive the credit. Correspondence audits enable the IRS to reach more taxpayers at a lower cost. Yet he said that correspondence audits have been criticized over the years, with taxpayers, tax practitioners, and their professional associations expressing concerns about the process. The GAO, TIGTA, and the National Taxpayer Advocate have also made suggestions for improvements, many of which have been implemented by the IRS.

Ed asked each panelist to make some opening remarks, which would be followed by questions from the Board members.

Panelist Statements

Patricia Thompson, AICPA, expressed support for adequate levels of funding that would allow the IRS to effectively administer the tax laws and collect taxes. She said the IRS relies on correspondence exams because they are less labor intensive, more automated, and thus perceived as more cost efficient compared to other types of exams. However, she said AICPA members are familiar with the difficulties and challenges taxpayers have faced over the past several years with correspondence examinations. It is in the increased computerization and mechanization of the correspondence audit program that triggers taxpayer concerns and problems.

The AICPA is supportive of correspondence exams and limited focus exams to the extent the programs reduce burden on taxpayers, and Ms. Thompson offered several recommendations to improve the process. She suggested the IRS improve telephone assistance lines to enable taxpayers to speak directly with an IRS staff person about their correspondence audit case. She also suggested the IRS not be too hasty in issuing "90 day letters" but work to resolve the case with the taxpayer. Other recommendations included an IRS-conducted internal review to determine whether the correct types of returns are being pulled for correspondence audits; an IRS review and streamlining of incoming mail processing, including flexibility in planning and staffing; and that managers become actively involved in assisting employees with resolution of cases more than six months old. She also suggested that e-services be expanded to act as a "portal" for correspondence submitted on the taxpayer's behalf that might lead to more timely resolution of cases.

The second panelist, Peggy Begg of TIGTA, opened her remarks by describing the correspondence audit process as less intrusive, more automated, and conducted by examiners trained to focus on less complex tax issues. She also said it is critical for the IRS to understand and minimize the burden (time and costs) that taxpayers spend dealing with correspondence audits. She said a recent IRS survey of taxpayers showed that 48 percent were satisfied with the service they received during a correspondence audit, but the top three areas of dissatisfaction included the time spent on the audit, the ease of getting through to the IRS on the phone for help, and the overall length of the process from start to finish. She said the IRS needs to streamline the process to be less time consuming for taxpayers. She did note that the IRS has implemented a skill-based call routing system make the system more responsive and less burdensome to taxpayers calling in to speak with an assistor.

Ms. Begg noted that in correspondence audits, substantial noncompliance can go undetected, particularly in audits of taxpayers with income that is subject to little or no information reporting. She also said that TIGTA has found that accuracy-related penalties were not properly considered and recommended during correspondence audits. She did say that the IRS has successfully expanded audit coverage using the correspondence audit process, and in so doing, has strengthened the public's respect for the tax system by ensuring all individuals are paying the amount of taxes they owe.

Andre Re's remarks covered correspondence generated by the Automated Underreporter (AUR) program as well as correspondence audits. He agreed that while these programs produce much more revenue and enhance compliance more economically when compared to field and office examinations, they also increase burden for a large number of taxpayers and practitioners. He said a common complaint is that taxpayer correspondence responding to the original inquiry is not timely associated with the case and therefore collection action is immediately initiated. He recommended that the system be programmed to place a hold on collection action immediately upon receipt of a taxpayer response, giving assistors time to resolve the case. He also said subsequent calls from taxpayers are handled by different IRS assistors each time, hindering quick resolution. He suggested the once a taxpayer response is received, the IRS should assign one employee to be responsible for working the case through to resolution. He added that email capability would make the system even more efficient. He said additional resources should be made available to improve access, or an automated process should be designed in the e-services suite.

Re said improvements could be made to the workload selection systems to ensure that only cases that have the most likely chance for adjustment are worked. He also recommended that only small business returns that have an obvious adjustment on their face be examined by correspondence audit; he said office exams were much more effective for small businesses and allowed for discovery of unreported income.

Lonnie Gary, EA, gave two general examples of correspondence audits. The first was very straightforward, where the IRS requested confirmation of a return line item, the taxpayer provided documentation, and the audit was closed. The second example was a correspondence audit that took eight months to resolve, and all non-reimbursed employee expenses were denied. Upon reconsideration, the expenses were allowed and the audit closed as “no change.” However, the extended time for the audit cost the taxpayer several thousand dollars as well as many hours of IRS staff time. Mr. Gary contended the audit could have been completely resolved in a two-hour office audit. Gary’s main point was that while correspondence audits have a place in the IRS’ compliance arsenal, they should be targeted to taxpayers in situations where they will have the most effect.

Gary agreed with recommendations put forward by the other panelists, and added two others. He emphasized the importance of technical training for IRS employees and development of a better system to catalog and manage incoming taxpayer correspondence related to ongoing audits. He said the key to success with correspondence audits is creating an environment in which the proper issues are selected for correspondence audits and in which taxpayers are assured that well-trained and well-supported IRS staff can manage the inevitable incoming taxpayer responses.

Questions

The panelists were asked about the failure to probe for unreported income in correspondence audits and how that could be corrected. One panelist suggested examiners use lead sheets, but conceded it would add to the length of the process. Panelists were asked what type of audit has the most impact in a time of limited resources, one in-depth audit with a large adjustment or five limited-issue exams with small adjustments. Panelists felt that there was more benefit in five smaller audits because more touches would have a larger impact on voluntary compliance. In reply to a question about taxpayer difficulties with reaching an IRS contact by telephone to resolve a correspondence audit issue, panelists suggested that an expanded e-services suite would allow resolution by email and be less costly than IRS phone lines.

Panel 2: Customer Service Challenge: Delivering Effective Taxpayer Service in an Era of Budget Reductions

Moderator: Raymond T. Wagner, Jr. Board Member
Panelists:

- *Carlos C. Lopez, EA, Executive Director,* The Latino Tax Professionals Association
- *Bernie McKay, Vice President Government Affairs,* Intuit
- *Linda S. Millsaps, Chief Operating Officer, State of North Carolina Department of Revenue,* Federation of Tax Administrators
- *Melissa Jensen, Associate Director,* Community Action Partnership of Utah

Ray Wagner welcomed the panelists for the second panel and asked them to introduce themselves and describe the organizations they were representing. In his introductory remarks, Wagner said he wanted to explore realistic steps that could be taken by the IRS to maintain its current level of taxpayer service in an environment of budget reductions. He said annual surveys show that taxpayers place a high value on the IRS' ability to deliver timely and accurate services to taxpayers. However, he said the IRS has been challenged over the past few years by implementation and administration of new tax provisions and the growing complexity of the tax code as well as budget reductions. He asked Carlos Lopez to begin with his statement.

Panelist Statements

Mr. Lopez praised the new modernized e-file system that acknowledges receipt of returns within minutes instead of days, but said the "Where's My Refund" application should be just as speedy. He said taxpayers have experienced problems accessing the application and that the IRS loses credibility with taxpayers and practitioners when it does not immediately inform them about refund delays in the system. He emphasized the importance of effective communications and world class training to help front-line IRS employees deliver services to taxpayers.

Bernie McKay, chairman of the board of the Council for Electronic Revenue Communication Advancement (CERCA), said the challenge of providing informative, timely and helpful service to taxpayers is a growing challenge as public sector budgets tighten and consumers increasingly expect instant access to accurate information on a 24x7 basis. He said the practical challenges of the 2012 filing season reflect that the current IRS strategy is not adequately meeting taxpayer needs. He said taxpayers this filing season have experienced delays in refund delivery, longer rather than shorter refund issuance cycles, problems with IRS online tools such as the Efile PIN and "Where's My Refund," reduced call center service-hour availability, and disconnects and long wait times trying to reach IRS assistors.

McKay said that to meet the challenges of doing more with less, the IRS must address both immediate-term considerations and longer-term considerations. In the immediate term, the IRS should leverage best practices from the call center industry and facilitate coordination and communication between IRS Call Center operations and industry tax services providers who operate large call centers. He said the IRS also needs an escalation system, to assist tax service providers who are dealing with extreme taxpayer dissatisfaction as a result of inadequate information about refund and return status. He said that customer service and information-sharing assumptions must be re-thought in the context of modern social media communications among taxpayers, who communicate with each other in real time about what they are hearing. These social realities must be dealt with in practical ways regarding the impact of information on the private sector system of registered tax return preparers and electronic tax service providers, who serve as intermediaries between the IRS and taxpayers.

McKay made the point that for a meaningful private-public partnership, there must be information sharing tools that allow private sector tax service providers to inform and respond to inquiries from their taxpayer clients. Each interaction that is successfully handled by the private sector is one less customer service interaction that must be handled directly by IRS' limited response resources.

He described such longer-term considerations as new strategies to leverage the tax preparation industry and its resources and expertise to provide customer service, where, rather than trying to duplicate private sector service capabilities, the IRS would provide a rich flow of information to harnesses the private sector to assist in meeting the growing taxpayer demand for information and service. He said the reality today is that taxpayers already expect the IRS and industry to work together in innovative ways to answer their questions.

Dr. Linda Millsaps, Chief Operating Officer and Deputy Secretary, North Carolina Department of Revenue, said that her department had no budget increases for the past five years and had substantial budget reductions over the past three years. She described three key tenets that have been helpful to her in managing her department in the current limited-funding environment. First, she said it is important to be firm with taxpayers, but fair. She also said be compassionate when called for, and thirdly, she said be easy to do business with. She encourages all of her employees to remember the three tenets in dealing with taxpayers.

Dr. Millsaps also outlined key areas that she has focused on to guide her department through the substantial budget cuts. She emphasized the importance of data driven decisions, noting that data influences better decision making. She said to focus on what taxpayers really want, which could be fairness and certainty rather than speed of completion, and she said quality control is the key to handling cases more effectively and efficiently. Finally, she said that employees who are inspired to do great work will improve customer service on their own.

Melissa Jensen, Associate Director of the Community Action Partnership of Utah, described her group's work with local partners and coalitions, especially the Volunteer Income Tax Assistance (VITA) program to facilitate voluntary compliance and accurate tax preparation. She said the program focuses on serving disenfranchised populations that struggle to voluntarily comply with tax laws and filing requirements, such as the elderly, refugees, immigrants, the disabled and extremely low-income families. She said the nature of VITA requires a community to work together to conduct outreach, education, and volunteer recruitment.

Ms. Jensen emphasized that with the federal budget facing both deficits and cuts, it is crucial that programs that leverage every dollar are prioritized. Adverse consequences to reduced funding of VITA include higher demand for IRS customer service calls and increased return reject rates; reduced number of clients that can be served by VITA; reduction of opportunities to expand into rural or other hard-to-access areas; and reduced numbers of timely and accurate tax filings. She said VITA is one of the leaders in reducing costs while increasing access to free filing, and continually reinforces the IRS as a trusted and service-oriented part of the federal government.

Questions

Following the conclusion of the panelist statements, Mr. Wagner asked what each panelist would tell his or her Senator to facilitate the IRS becoming a world-class organization. Mr. Lopez said the Registered Return Preparer program, coupled with the IRS Nationwide Tax Forums, is a cost effective way to increase voluntary compliance. Mr. McKay suggested a focus on the critical few core tax administration responsibilities, in terms of refund processing, collections, enforcement, and educating the public to manage expectations about the process. Ms. Millsaps challenged the concept of "world class" saying taxpayers may not want to pay the cost for a "world class" system, and instead may simply want a system that is fair and well-managed. Ms. Jensen said invest in what works the best for taxpayers, and said VITA is one program that works well.

Mr. Tobias asked how the IRS could leverage best practices from the call center industry to facilitate coordination and communication with taxpayers. After some discussion among the panelists, Mr. Lopez suggested that if the IRS could make e-services more robust, third-party providers could access information on behalf of taxpayers to take some of the customer service pressure off of the IRS.

Mr. Eck asked Ms. Millsaps about certain tax services in North Carolina that are fee-based. She said there is a statutory collection assistance fee, which can be waived if certain taxpayers get free small business counseling.

Panel 3: Human Capital Management Challenge: Fostering Employee Mentoring, Engagement, and Development in a Limited Budget Environment

Moderator: Robert Tobias, Chair, IRSOB Operations Committee
Panelists:

- *Carolyn M. Taylor, Chief Human Capital Officer,* U.S. Government Accountability Office
- *John M. Palguta, Vice President for Policy,* Partnership for Public Service
- *The Honorable Patricia A. Jonas, Executive Director, Office of Appellate Operations,* Social Security Administration
- *Matt Socknat, Legislative Representative,* National Treasury Employees Union

Bob Tobias opened the discussion about the impact of limited resources and wage freezes upon the state of the IRS workforce and IRS operations. He said that training, development, and improved processes are the kind of investments that need to be made in the workforce so that employees are not demoralized but rather empowered to do more with less. He invited the panelists to discuss options and incentives to keep employees motivated and productive in uncertain budget times.

Panelist Statements

Carolyn Taylor, Chief Human Capital Officer of GAO, began her statement by saying that a focus on human capital management is not a luxury for GAO, but a necessity because about 80 percent of its budget goes toward salaries and benefits. She said three principles guide GAO's human capital management practices. First is a strategic and integrated approach to human capital management backed by a committed leadership. Secondly, she described an open work environment where employee work input is encouraged, respected and acted upon. Finally, she said GAO has a performance management system and awards program to recognize good performance.

Taylor emphasized that GAO's focus on program accountability and continuous improvement has resulted in program changes and cost savings in times of healthy budgets as well as in lean times. She said the aim is to balance agency needs with effective human capital management that supports employees, keeps them engaged, and helps GAO remain one of the best places in government.

Next, John Palguta talked about the Partnership for Public Service and its Best Places to Work in Government rankings. He said the study is not designed to identify how to make employees happier, but rather to determine what makes organizations effective. He said research shows that the more employees are engaged, the more productive organizations will be. He said there was good news about the IRS in that it did not begin at a high point in the rankings, but over time has continued to improve.

Palguta said that employee engagement does not happen accidentally, and in the case of the IRS, there was a major effort beginning in 2008 to become an employer of choice. He offered six thoughts going forward about how employee engagement can be retained. First, he said, understand employee feedback and deal with it constructively. Then, he said, use that information to develop a long-range strategic approach that starts at the top. Next, get employees involved in identifying solutions. He said one of the best resources to use in trying to determine how to do more with less is to work with employees to identify the possibilities. Palguta said to engage all employees in planning actions and follow-through; invest in employees whenever possible; and finally make sure employees know they are appreciated.

The next panelist, Judge Patricia Jonas, Executive Director for the Office of Appellate Operations at the Social Security Administration, described how her organization quickly transformed itself to modify the appeals process and reduce large backlogs. The organization had to identify a recruitment strategy to achieve an effective and diverse pool of qualified applicants and a mentoring program to reduce the new employee learning curve. It developed a new training and mentoring program that met employee needs and the agency's need for employees who could quickly become productive.

She said the new training course focused on a curriculum of practical demonstration and participation by trainees, and employee feedback loops guided changes to the delivery and content of the training. The learning curve for new employees was reduced from 18 months to eight months, and then to five months. To keep employees continually informed, the organization produces a regular newsletter that provides examples of career path studies to help employees advance, and also encourages experienced staff to mentor less experienced employees.

For this effort, Judge Jonas' organization won the 2011 W. Edwards Deming Award, presented annually to a federal government organization in recognition of a workforce development and training initiative that measurably improved the organization's performance.

The final panelist, Matt Socknat of the National Treasury Employees Union (NTEU), said that as federal agencies see their budgets reduced, agencies will be hard pressed to motivate and retain skilled workers and attract new talent. Therefore, he said that to ensure employees are motivated, the NTEU believes it is critical that agencies adopt policies and practices that increase workplace flexibilities. By allowing employees to better balance the demands of career and family life, workplace flexibilities are among the most effective tools in managing the federal workforce, he said.

Questions

Mr. Tobias asked Ms. Taylor how the GAO managed to retain its training and development programs over the past several years of declining budgets. She said that the GAO has developed and maintained its learning center for many years and its courses are taught by GAO staff, so it is very cost effective.

Mr. Cherecwich asked her how the GAO reconciles reduced travel budgets with executive travel to the field to meet with employees. Ms. Taylor responded that it is very important for senior management to visit with employees and let them know they are appreciated.

Mr. Tobias asked Judge Jonas what she did to change the culture in her office so quickly. She replied that she challenged her staff to show value they could add and for them to show appreciation for the investment the agency was willing to make to improve the office. She also said there was so much change all at once that naysayers were overwhelmed.

At the completion of the discussions, Chairman Cherecwich thanked the panelists and the audience for their participation and the meeting was adjourned.