

**The Clarity and Accuracy of Taxpayer Notices  
Are Actively Being Improved**

**May 2004**

**Reference Number: 2004-40-099**

**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

May 18, 2004

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Clarity and Accuracy of Taxpayer  
Notices Are Actively Being Improved (Audit # 200340056)

This report presents the results of our review of the clarity and accuracy of taxpayer notices. The overall objective of this review was to determine whether the Internal Revenue Service (IRS) has an effective process to identify and correct erroneous taxpayer notices. This review was included in our Fiscal Year 2003 Annual Audit Plan for the Wage and Investment (W&I) Income Programs and was part of our overall strategy to review areas critical to the success of the IRS' Submission Processing strategy.

The W&I Division Commissioner is responsible for the customer communications process with individual taxpayers and has appointed a Single Point of Contact to oversee the notice process. There are approximately 100 different types of notices that can be generated for individual taxpayers, and during Calendar Year 2003, the W&I Division generated 40.4 million notices. Unclear notices are a top reason why taxpayers contact the IRS.

In summary, the IRS has established a framework for implementing an effective notice process. This framework includes completing assessments of all taxpayer communications for clarity, completeness, and accuracy; prioritizing the notices for proposed redesign; establishing Project Teams to address specific notice creation or modification initiatives; and establishing Improvement Teams to create new or change existing computer systems that support notice activities. While it could take many years to fully implement this framework, the W&I Division is already actively improving the clarity and accuracy of notices to assist taxpayers with meeting their tax obligations. We reviewed the W&I Division Notice Review Processing System and determined that it properly selects for review those notices most likely to contain errors. We also reviewed

538 notices from 11 different notice types and found the notices were, for the most part, clear and accurate.

However, we identified several errors that could increase taxpayer burden. For example, copies of notices were not always sent to representatives that taxpayers had authorized to receive correspondence from the IRS, notices issued to inform a taxpayer that an overpayment from a secondary Social Security Number account had been applied to the taxpayer's balance due did not always reflect the taxpayer's most current name or address recorded on the IRS computer systems, and headings on notices issued to inform a taxpayer of an obligation to recertify for the Earned Income Tax Credit were not clear. We discussed these errors with W&I Division officials during the audit. They agreed with our concerns and either put corrective actions in place or identified the means to make the improvements in the near future. We recommended the Commissioner, W&I Division, ensure corrective actions taken are effective and corrective actions planned are both timely implemented and effective.

Our recommendation will provide the following measurable benefits on tax administration: reducing taxpayer burden by ensuring authorized taxpayer representatives receive a copy of taxpayer notices, clarifying the section headings on certain tax notices, and ensuring notices reflect the taxpayer's most current name and address. Appendix IV of this report provides a detailed description of these benefits, which will be included in our Semiannual Report to the Congress.

Management's Response: IRS management appreciated our recognition of their efforts to improve communication with taxpayers. Management agreed with our recommendation and outcome measures as presented. They corrected the programming problem that caused a high number of incomplete matches to the Centralized Authorization File in early December 2003, and have plans to revise both the Computer Paragraph 39 and 79 notices in January 2005. Management's complete response to the draft report is included as Appendix VI.

Copies of this draft report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

## Table of Contents

Background .....	Page 1
A Framework for an Effective Notice Process Has Been Established but Could Take Many Years to Fully Implement .....	Page 3
The Notice Review Processing System Properly Selects Notices That Are Most Likely to Contain Errors .....	Page 5
Improvements to Some Notices Need to Be Made .....	Page 6
<u>Recommendation 1</u> : .....	Page 9
Appendix I – Detailed Objective, Scope, and Methodology .....	Page 10
Appendix II – Major Contributors to This Report .....	Page 12
Appendix III – Report Distribution List .....	Page 13
Appendix IV – Outcome Measures .....	Page 14
Appendix V – Explanations of Notices Reviewed During the Audit .....	Page 15
Appendix VI – Management’s Response to the Draft Report .....	Page 17

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

---

### Background

---

In August 2000, the Internal Revenue Service (IRS) commissioned a Notice Modernization Team to design a new end-to-end notice<sup>1</sup> process, including the systems used to support the notice activities. In July 2001, the Notice Modernization Team presented its recommendations to the Tax Administration Council, which approved the following:

- The Operating Division Commissioners and the heads of functional organizations (e.g., the National Taxpayer Advocate) will own the communications with their respective customers and are accountable for the quality and content of those communications.
- The Operating Division Commissioners will use a new position, the Single Point of Contact (SPOC), to oversee the notice process in the respective organizations.
- The SPOCs will use the Dynamic Project Team<sup>2</sup> process to create or modify existing notices and use the Notice Process Improvement Initiative Team process when focusing on the systems that support notices.
- A new organizational structure, the Notice Support Group, will be established to support the entire IRS by providing key services.
- A new Notice Communications and Advisory Group will be established to provide for cross-Operating Division decision making and information sharing.

The Wage and Investment (W&I) Division generated 40.4 million notices for individual taxpayers<sup>3</sup> during Calendar Year 2003. There are approximately 100 different types of Individual Master File (IMF)<sup>4</sup> notices that are used for different purposes. For example, different notice types are used to inform taxpayers of payments due, interest and/or penalties due, math errors, or adjustments made to

---

<sup>1</sup> “Notice” encompasses letters, email notifications, and envelope stuffers.

<sup>2</sup> A Dynamic Project Team is formed for a specific notice creation/modification initiative and is disbanded when the project is completed.

<sup>3</sup> Source: IRS Office of Notice Gatekeeper’s Report of Cumulative IMF Notice Volumes for Calendar Year 2003. The 40.4 million excludes Business Master File notices.

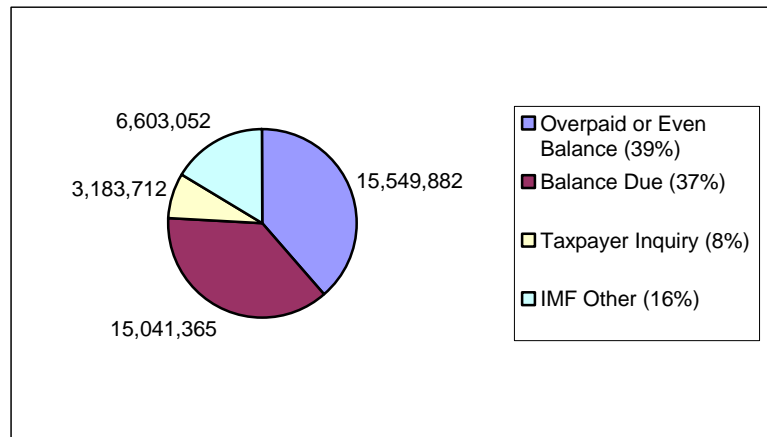
<sup>4</sup> The IRS database that maintains transactions or records of individual tax accounts.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

their accounts. As shown in Chart 1, IMF notices can be categorized into four major groups involving either a(n) (1) overpaid or even balance condition, (2) balance due condition, (3) taxpayer inquiry, or (4) other condition.

**Chart 1: Volume of IMF Notices Generated in 2003**



Source: IRS Office of Notice Gatekeeper's Report of Cumulative IMF Notice Volumes for Calendar Year 2003.

Issuance of unclear or erroneous notices increases taxpayer burden and has a negative impact on IRS resources. The IRS' Fiscal Year (FY) 2003 budget stated that unclear notices are a top reason why taxpayers write to the agency.<sup>5</sup> The FY 2003 goal for the *Notice Error Rate Without Systemic Errors* was 4.3 percent.<sup>6</sup>

Several IRS functions conduct quality reviews of notices. One of these is the Notice Review function located at the Submission Processing sites.<sup>7</sup> The goal of the Notice Review function is to improve the accuracy and quality of information sent to taxpayers. The Notice Review Processing System (NRPS) is a computer program that selects notices for review in the Notice Review function.

This audit was performed at the W&I Division Headquarters offices in Atlanta, Georgia, and New Carrollton, Maryland, and the Submission Processing sites in Cincinnati, Ohio; Austin, Texas; and Kansas City, Missouri, during the period

---

<sup>5</sup> Source: IRS Budget In Brief, Fiscal Year 2003, Document 9940 (Rev 1-2002).

<sup>6</sup> Source: Wage & Investment Strategy & Program Plan FY 2003-2004.

<sup>7</sup> A part of the IRS campuses. See footnote 9 on page 4 for a definition of campuses.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

---

### **A Framework for an Effective Notice Process Has Been Established but Could Take Many Years to Fully Implement**

---

July 2003 through February 2004. 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.

Overall, the IRS has established a framework for an effective notice process that could take many years to fully implement. Meanwhile, the W&I Division is already actively improving the clarity and accuracy of notices to assist taxpayers with meeting their tax obligations.

In July 2001, the Tax Administration Council approved the recommendations of the Notice Modernization Team that established the framework for an end-to-end notice process. Each Operating Division Commissioner became the owner of his or her customer communications, and a SPOC position was established within each Operating Division to oversee the notice process.

The W&I Division Notice Strategy Group was formed in August 2001. This Group, which is composed of representatives from all of the major W&I Division functions, developed the W&I Division Notice Strategy that identifies strategies for addressing notice issues. In our opinion, several of the strategies could alleviate future erroneous notices.

The SPOC organization is responsible for working with the W&I Division functions to incorporate the notice strategies into their business strategies and assist them in reviewing their customer communications. The SPOC acts as an overseer, facilitator, coordinator, and troubleshooter regarding all notice activities.

All W&I Division functions will assess their notices by completing a Document Assessment Tool (DAT). The DAT contains 36 criteria for assessing the quality and completeness of notices. Completed DATs will be forwarded to the W&I Division Notice Strategy Group, which will evaluate the results and prioritize the notices for redesign.

The W&I Division and SPOC will use the Dynamic Project Team process to create or modify existing notices and the Notice Process Improvement Initiative Team process to update computer systems that support notices.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

We reviewed the DAT and concluded that it sufficiently covers notice clarity and completeness issues. The 36 DAT criteria are adequate to assess a notice's message and task, logical structure, and presentation. We also reviewed the Proposed Notice Redesign Prioritization Matrix, dated April 9, 2003, that was prepared by the W&I Division Notice Strategy Group. The matrix listed 44 notices that had been scored using 12 criteria. The total scores were used to prioritize the notices for proposed redesign.

We observed that the matrix was incomplete. For example, the criteria for "Program Analysis Section quality reviews"<sup>8</sup> and "erroneous notices sent" had not been defined. The SPOC informed us the employee responsible for defining the "erroneous notices sent" criteria was assigned to another task force and the W&I Division Notice Strategy Group did not use these criteria to prioritize the notices. Thus, while the IRS has established a framework for an effective notice process, it could take many years to complete the assessment and prioritization of all W&I Division notices for proposed redesign and then implement the revisions.

As noted above, there are several functional areas that review notices. To determine whether all IMF notices were subjected to quality review, we analyzed 127 different types of IMF notices with a total volume of 35.6 million during the period January through mid-October 2003. We found that 103 of these 127 notices, which accounted for 34.5 (96.9 percent) of the 35.6 million, were included in some type of review at the various IRS campuses.<sup>9</sup> Of these 103 notices, 47 were subject to review by the NRPS.

---

<sup>8</sup> The Program Analysis Section (PAS) reviews are one component of the IRS' quality review process for assessing national quality balanced measures. Management uses the data to provide a basis for measuring and improving program effectiveness. The PAS includes reviews of Computer Paragraph (CP) notices to evaluate and improve the quality of computer-generated notices to taxpayers.

<sup>9</sup> The data processing arm of the IRS. Campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.



## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

---

### **The Notice Review Processing System Properly Selects Notices That Are Most Likely to Contain Errors**

---

The NRPS selects notices for review based on prioritized Categories and prioritized Selection Keys within each Category. There are 11 different Categories and several hundred Selection Keys. The default selection limit is 30,000 notices per week for each Submission Processing site, but the limit can be increased up to 50,000. Each week, the NRPS systemically calculates the error rate and selection rate for notices. The Submission Processing sites can use a Local Control File (used to adjust the NRPS notice selection intervals) to adjust (increase or decrease)<sup>10</sup> the number of notices selected. The Local Control File will override the systemic calculation and must be cleared to resume the systemic calculation.

We reviewed the cumulative NRPS report data for Calendar Year 2003 through mid-October<sup>11</sup> to determine if the volumes of notices reviewed were statistically representative of the populations. We analyzed 318 combinations of notices<sup>12</sup> and found that, for 278 of these combinations, the volumes reviewed were representative of their respective populations.<sup>13</sup> Although the volumes of notices reviewed for the remaining 40 combinations were determined to be less than the minimum sample sizes required to be statistically representative, we considered the potential adverse effect to be immaterial when the total volume (123,826) for these 40 combinations was compared to the overall volume (27.3 million) for the 318 notice combinations subject to potential review.

We found no indication that notices were bypassed for selection under the NRPS. In addition, the Local Control

---

<sup>10</sup> Only the Math Error notice selection volumes can be decreased.

<sup>11</sup> All of the notices selected by the NRPS may not be reviewed due to resource constraints. Through mid-October, 11 percent of the notices selected by the NRPS had not been reviewed.

<sup>12</sup> Examples of combinations are CP 12 notice for Andover Submission Processing Site, CP 12 notice for Austin Submission Processing Site, CP 14 notice for Andover Submission Processing Site, etc. See Appendix V for explanations of these notices.

<sup>13</sup> Although the Notice Review Internal Revenue Manual (IRM) does not require the use of statistical sampling, the PAS Quality Review IRM contains a statistical sampling guideline of a 90 percent confidence level and +/- 5 percent precision for monthly and quarterly samples. We used this guideline to analyze the NRPS selections.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

---

### Improvements to Some Notices Need to Be Made

---

File appeared to be functioning as designed. There were only five instances in which the NRPS notice selections reached or slightly exceeded the system volume capacity.<sup>14</sup> The number of instances is insignificant, considering NRPS selections are performed by the 10 Submission Processing sites each week.

We selected a judgmental sample of 538 notices from 11 different notice types<sup>15</sup> with large volumes and reviewed them for clarity and accuracy. See Appendix V for explanations of the notice types. We assessed clarity from a taxpayer's perspective; for example, whether the notice information was complete and understandable. To assess accuracy, we compared the data on the notice (e.g., taxpayer name and address, adjustments, offsets) to account information on the Integrated Data Retrieval System (IDRS).<sup>16</sup> The notices were, for the most part, clear and accurate. However, we identified the following errors that, if not corrected, could increase taxpayer burden and have a negative impact on IRS downstream operations.

In January 2004, we presented our results to W&I Division management. Management agreed with our findings and has either put corrective actions in place or identified the means to make necessary improvements in the near future as noted below.

#### **A copy of the notice (dual notice) was not always sent to the taxpayer's representative**

Of the 538 notices we reviewed, 59 (11 percent) involved taxpayers that had a representative on file who was authorized to receive notices. Federal Government regulations require that any notice or other written communication (or copy) required or permitted to be given to a taxpayer in any matter before the IRS must also be

---

<sup>14</sup> The NRPS default selection limit is 30,000 notices. Each Submission Processing site can increase this limit to any number up to 50,000. When the number of notices selected comes within 1,000 of the 30,000 default selection limit (i.e., 29,001), the NRPS begins to bypass Categories and Selection Keys in a prescribed order.

<sup>15</sup> We reviewed 50 of each of the following CP notice types: 12, 14, 16, 21B, 22A, 31, 42, 49, 53, and 79; and 38 CP 39 notices, for a total of 538 notices.

<sup>16</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

given to the taxpayer's authorized representative. Failure to give notice to an authorized representative will not affect the validity of any notice or other written communication delivered to the taxpayer.<sup>17</sup> Notice Review function personnel at the Austin Submission Processing Site informed us that the notice processing system is programmed to automatically pull the representative's name and address from the Centralized Authorization File (CAF).<sup>18</sup> Additionally, the Internal Revenue Manual contains procedures for working CAF mismatch notices.<sup>19</sup>

We found that 5 (8.5 percent) of the 59 taxpayer representatives did not receive a copy of the taxpayer notice due to a programming error. This creates unnecessary burden on taxpayers, since they must contact their representatives and advise them of the notices. Our sample of 538 notices was selected from notices processed in early November 2003.

The IRS corrected this programming problem in early December 2003, and the CAF mismatches declined significantly. For comparison, there were 6,530 CAF mismatches the week before the programming correction was made and only 491 in the subsequent week.<sup>20</sup> To ensure the number of mismatches is kept to a minimum, the computer will search CAF files at three campuses<sup>21</sup> to find a CAF match. If a match is not found, the computer will search CAF files at the remaining campuses.<sup>22</sup>

### **Some Computer Paragraph (CP) 39 notices<sup>23</sup> did not include the taxpayer's most current name and address**

We reviewed 38 CP 39 notices and identified 11 (28.9 percent) that did not reflect the taxpayer's most

---

<sup>17</sup> 26 C.F.R. § 601.506 (2001).

<sup>18</sup> The IRS database that maintains third party authorization information.

<sup>19</sup> CAF mismatch notices are copies of the taxpayer's notice that are intended for a tax preparer or other representative but have no name and address.

<sup>20</sup> The IRS processes transactions in 1-week periods known as "cycles." For example, there are 52 cycles in a calendar year.

<sup>21</sup> CAF processing is centralized in three campuses: Ogden, Memphis, and Philadelphia.

<sup>22</sup> Andover, Atlanta, Austin, Brookhaven, Cincinnati, Fresno, and Kansas City.

<sup>23</sup> See explanation for CP 39 notice in Appendix V.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

current name or address information, as recorded on the IDRS. The result is either delayed or lost notices, which can affect taxpayers' ability to satisfy their tax obligations. In addition, the notice identifies the tax period that the overpayment was applied to but does not identify the source (tax period) of the overpayment.

According to W&I Division management, the CP 39 notice is generated from the spouse's account, which could explain the address not being the most current. The notice has one of the highest priorities for revision because it does not fully meet the needs of its customers. Management further advised that, after they receive the model for the Dynamic Project Team (at the time of our review, the vendor delivery date was scheduled for April 2004), they plan to start organizing teams to revise the notice. Management will provide our audit findings to the teams for corrective action.

### **Headings on CP 79 notices,<sup>24</sup> issued to inform a taxpayer of an obligation to recertify for the Earned Income Tax Credit (EITC), were not clear**

All 50 CP 79 notices we reviewed contained the same information except for the taxpayer's name, address, taxpayer identification number, and tax period printed at the top of the notice. From a taxpayer's perspective, it is unclear whether the section headings, "For Tax Period 2001 and Prior" and "For Tax Period 2002 and Subsequent," are referring to the tax period printed at the top of the notice. In addition, the information in the third bullet appears to be missing the word "be" between "may" and "delayed." Unclear notices result in increased taxpayer contacts with the IRS.

W&I Division management issued a transmittal in January 2004, to insert the word "be" into the third bullet of the notice. In addition, management is currently working on revising all EITC communications and has forwarded our findings to the appropriate personnel to consider during the revision process. Since W&I Division management has taken corrective actions, we did not determine the cause for the unclear notice.

---

<sup>24</sup> See explanation for CP 79 notice in Appendix V.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

### Recommendation

To improve the quality of the notices and reduce taxpayer burden, the Commissioner, W&I Division, should:

1. Ensure corrective actions taken are effective and corrective actions planned are both timely implemented and effective.

Management's Response: IRS management agreed with our recommendation. As noted, they corrected the programming problem that caused a high number of incomplete matches to the CAF in early December 2003. In addition, management has plans to revise both the CP 39 and CP 79 notices in January 2005.

### Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the Internal Revenue Service (IRS) has an effective process to identify and correct erroneous taxpayer notices. This review was included in our Fiscal Year 2003 Annual Audit Plan for the Wage and Investment (W&I) Income Programs and was part of our overall strategy to review areas critical to the success of the IRS' Submission Processing strategy. To accomplish our objective, we:

- I. Determined whether procedures have been established to identify for future improvements those notices most likely to contain errors.
  - A. Interviewed the W&I Division Single Point of Contact (SPOC) and reviewed notice documentation<sup>1</sup> to (1) determine if the SPOC is empowered to effect notice revisions and (2) evaluate guidance provided to functions that review notices.
  - B. Interviewed national and local analysts responsible for the Notice Review Processing System (NRPS)<sup>2</sup> and the Computer Assisted Review of Error Resolution System<sup>3</sup> and reviewed data from these two systems to determine whether:
    1. The systems' data provided details of the errors and their causes for use in performing trend analyses.
    2. The results of reviews were forwarded to the SPOC for assistance in identifying causes of erroneous notices.
  - C. Identified a total population of 127 different Individual Master File (IMF)<sup>4</sup> notice types with a cumulative volume of 36.2 million for January through late October 2003. We sorted the 127 notice types based on volume (highest to lowest) and selected a combination of 11 different notice types<sup>5</sup> generally with high volumes that are and are not subject to quality review by the NRPS. From these 11 different notice types, we reviewed a judgmental sample<sup>6</sup> of 538 notices to evaluate them for clarity and accuracy.

---

<sup>1</sup> We obtained the notice process documentation from the W&I Division SPOC.

<sup>2</sup> A computer program that selects notices for review in the Notice Review function.

<sup>3</sup> The "on-line" quality review of taxpayer notice codes initiated by the Error Resolution System. It is a management tool used to identify incorrect or erroneous taxpayer notice codes, prior to the normal Notice Review process.

<sup>4</sup> The IRS database that maintains transactions or records of individual tax accounts.

<sup>5</sup> See Appendix V for explanations of the 11 different notice types.

<sup>6</sup> We could not perform a statistical sample because we did not have access to the total population of printed notices for Calendar Year 2003. Each week, notices are printed at two IRS consolidated print sites and mailed to taxpayers. The IRS does not retain copies of the notices. Therefore, we made a special request for copies of the first 200 notices from each of 11 different IMF notice types generated in early November. We selected our judgmental sample of 538 notices from this population.

## **The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved**

---

- II. Determined whether procedures for the review of notices currently prepared for mailing to taxpayers provide meaningful results for preventing future erroneous notices.
  - A. Analyzed cumulative NRPS report data for January through mid-October 2003, to determine if the volumes of notices reviewed were statistically representative of their respective populations. We computed the statistically valid sample sizes using a 90 percent confidence level, +/- 5 percent precision, and 4.3 percent expected error rate.<sup>7</sup>
  - B. Analyzed the total population of 127 different IMF notice types with a cumulative volume of 35.6 million for January through mid-October 2003, to determine if all IMF notices are subject to quality review by the NRPS or other functional area. This was the same population of 127 notice types identified in Step I.C. but for a different period.
  - C. Interviewed the NRPS national program analyst and a local database administrator to determine if access to NRPS data is appropriately controlled and if the Local Control File (used to adjust the NRPS selection intervals) is functioning as intended.

---

<sup>7</sup> Although the Notice Review Internal Revenue Manual (IRM) does not require the use of statistical sampling, the IRM covering Program Analysis Section quality reviews contains a statistical sampling guideline of a 90 percent confidence level and +/- 5 percent precision for monthly and quarterly samples. We used this guideline to analyze the NRPS selections.

**Major Contributors to This Report**

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Scott A. Macfarlane, Director

Gary L. Young, Audit Manager

Sharon A. Buford, Senior Auditor

Sharla J. Robinson, Senior Auditor

Lawrence N. White, Senior Auditor

Bonnie G. Shanks, Auditor



**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Account Services SE:W:CAS  
Director, Customer Assistance, Relationships, and Education SE:W:CAR  
Director, Strategy and Finance SE:W:S  
Director, Media and Publications SE:W:CAR:MP  
Director, Submission Processing SE:W:CAS:SP  
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: GAO/TIGTA Liaison, Wage and Investment Division SE:W:S:PA

### **Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 16 erroneous taxpayer notices (see page 6).

Methodology Used to Measure the Reported Benefit:

We judgmentally reviewed a total of 538 notices and determined that 59 of the taxpayers had a representative on file who was authorized to receive notices. However, required copies of the taxpayer notices were not sent to 5 (8.5 percent) of the 59 representatives.

We also reviewed a judgmental sample of 38 notices issued to inform a taxpayer that an overpayment from a secondary Social Security Number account had been applied to the taxpayer's balance due. We determined 11 (28.9 percent) did not reflect the taxpayer's most current name or address information, as recorded on the Integrated Data Retrieval System.<sup>1</sup>

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 371,205 notices (see page 6).

Methodology Used to Measure the Reported Benefit:

We reviewed a judgmental sample of 50 notices issued to inform a taxpayer of an obligation to recertify for the earned income tax credit and identified unclear and missing information that could be confusing to taxpayers. Since all of the notices contain the same information except for the taxpayer entity information, all notices were affected. The Internal Revenue Service issued 371,205 of these notices to taxpayers during 2003.

---

<sup>1</sup> The Internal Revenue Service computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

**Explanations of Notices Reviewed During the Audit**

Notices selected for review under the Notice Review Processing System (NRPS):

- Computer Paragraph (CP) 12 (Overpaid) – Issued as a first notice to inform a taxpayer there was an error in computation on his or her individual income tax return resulting in an overpayment of \$1.00 or more.
- CP 14 (Balance Due) – Issued to inform a taxpayer of a balance due when there is no math error.
- CP 16 (Overpaid) – Issued to inform a taxpayer of an error on the return and that part of an overpayment was applied to another tax liability.
- CP 21B (Overpaid) – Issued to inform a taxpayer of an Examination function or data processing adjustment resulting in an overpayment.
- CP 22A (Balance Due) – Issued to inform a taxpayer of an Examination function or data processing adjustment resulting in a balance due.

Notice that may be reviewed under the NRPS:<sup>1</sup>

- CP 49 (Overpaid) – Issued to notify a taxpayer that an Individual Master File (IMF)<sup>2</sup> overpayment has been applied to an unpaid IMF liability or liabilities.

Notices not reviewed under the NRPS:<sup>3</sup>

- CP 31 (Taxpayer Inquiry) – Issued to inform a taxpayer that his or her refund check was returned as undelivered and request that the taxpayer provide the Internal Revenue Service with a correct address.
- CP 39 (Balance Due) – Issued to inform a taxpayer that an overpayment from a secondary Social Security Number (SSN) account has been applied to his or her balance due.
- CP 42 (Overpaid) – Issued to inform a taxpayer that an overpayment from his or her account has been used to offset a balance due in a secondary SSN account.
- CP 53 (Taxpayer Inquiry) – Issued to notify a taxpayer that an electronic funds transfer was not honored.

---

<sup>1</sup> These “associated notices” are not subject to selection, but are included in the review package if the NRPS selects another notice for the same taxpayer/spouse, and may appear on the Manual Intervention Required Pull List.

<sup>2</sup> The Internal Revenue Service database that maintains transactions or records of individual tax accounts.

<sup>3</sup> The NRPS will neither select these nor associate them with a selected notice. However, they may appear on the NRPS Manual Intervention Required Pull List.

## **The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved**

---

- CP 79 (Taxpayer Inquiry) – Issued to inform a taxpayer of his or her obligation to recertify for the Earned Income Tax Credit (EITC) with an Information To Claim Earned Income Credit After Disallowance (Form 8862) on the next return on which he or she claims the EITC.

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

APR 22 2004

MEMORANDUM FOR PAMELA J. GARDINER  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Henry O. Lamar, Jr. *Henry O. Lamar, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Clarity and Accuracy of Taxpayer  
Notices Is Actively Being Improved (Audit No. 200340056)

I appreciate your positive recognition of our efforts to improve communication to our customers. I am pleased with the progress we have made and recognize there is still much work to be done. I appreciate your independent validation that our current Taxpayer Notice process is having positive results. The cooperative efforts of the various Wage and Investment (W&I) functions with the Single Point of Contact (SPOC) for Notices has resulted in an effective method to identify unclear notices and schedule improvement based on their impact to our customers.

A key component of ensuring the clarity and accuracy of notices is the ongoing review activities performed by the Notice Review function. Proper identification and error correction prior to mailing is critical to ensuring that our notices are accurate. I am pleased that your review validates that the Notice Review Processing System (NRPS) and local reviews are working properly.

As you reported, we corrected the programming problem that was causing some notices to not be sent to the taxpayer's representative. A programming problem caused incomplete matching to the Centralized Authorization File (CAF), which contains information identifying the authorized representative. We have reviewed 4 weeks of data since this correction was made and determined that it has minimized the mismatches. We are satisfied that the corrected program is effective. We will also complete our plans to improve the Computer Paragraph 39 (CP 39), an advisory notice of application of overpayment from a secondary account, and Computer Paragraph 79 (CP 79), used to advise a taxpayer that they need to recertify for Earned Income Tax Credit (EITC). Your willingness to make us aware of these problem situations during the audit allowed us to take corrective actions and improve our service.

I also appreciate your comments on the framework we now have in place to implement an effective notice process. While you are correct that this framework could take several years to fully implement, I would like to mention some recently completed and planned efforts.

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

2

The W&I SPOC office, in partnership with the Small Business/Self-Employed SPOC office and with support from the Notice Support Group, continues to pursue notice improvements. A Dynamic Project Team (DPT) has recently completed its work in designing the CP71/CP171 Annual Balance Due Reminder Notice family. These notices have a combined annual volume of approximately 6 million. The DPT combined several existing reminder notices into two notices. Also, a design team has nearly completed their work to revamp the CP2000 Underreporter Notice, which annually goes to about 2 million taxpayers. The revised CP2000 will make it much easier for taxpayers to understand what they need to do. We have scheduled the revisions to these notices to go into production later this year.

Several Notice Process Improvement Initiative Teams (NPIIT) were established. One team rewrote explanations contained in math error notices using reader- focused plain language and added the relevant tax return line numbers to each explanation. This will deliver more accurate and understandable notices and also resolves one of the Top 20 Taxpayer Problems identified in the National Taxpayer Advocate's annual report to Congress. The Notice Elimination team identified 17 notices for possible elimination and is suggesting combining others. The team also recommended the establishment of a Notice Life Cycle, which reviews notices on a regular basis to determine their continued need. This is a revolutionary concept that will help the Service ensure taxpayer communications are effective and current. Finally, a Notice Standardization team is also underway focusing on notice language, layout, and printing issues. This effort will establish a standard look and feel for all IRS notices.

We are currently organizing a DPT for April 2004 to reinvent Collection Balance Due Notices, Installment Agreement Notices, and Taxpayer Delinquency Investigation Notices. We will have simplified approximately 86 percent of all Computer Generated Notices, many through the DPT process upon implementation of the resulting changes. We will then focus on our other taxpayer correspondence. The experience gained from the CP notice efforts will facilitate the rest of this work.

I agree with outcome measures explained in Appendix IV of your report. Our comments to your recommendation are attached.

If you have any questions, please call me or Ronald S. Rhodes, Director, Customer Account Services, at (404) 338-8910.

Attachment

## The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved

---

Attachment

### **RECOMMENDATION 1**

To improve the quality of the notices and reduce taxpayer burden, the Commissioner, Wage and Investment Division should:

Ensure corrective actions taken are effective and

- (b.) corrective actions planned are both timely implemented and effective.

### **CORRECTIVE ACTION**

- (a.) We corrected the programming problem that caused a high number of incomplete matches to the CAF file in early December. We have reviewed 4 weeks of data and determined that the revised programming has effectively corrected this problem.
- (b.) We agree that improvements are needed to Notices CP 39 and CP 79. Representatives from W&I Submission Processing will work with the SPOC and her staff to identify the needed improvements and revise these two Notices. We anticipate completing the needed revisions January 15, 2005. Representatives from Submission Processing and the SPOC will evaluate the effectiveness of the improvements within 15 months of the final revisions.

### **IMPLEMENTATION DATE**

- (a.) Completed – March 24, 2004
- (b.) Revision Date: January 15, 2005  
Effectiveness Review Date: April 15, 2006.

### **RESPONSIBLE OFFICIAL**

- (a.) N/A  
Director, Submission Processing Division

### **CORRECTIVE ACTION MONITORING PLAN**

- (a.) N/A
- (b.) We will monitor this corrective action as part of our internal management control system. The Chief, Individual Master File Branch, will report progress to the Director, Submission Processing Division.