

**The Internal Revenue Service
Needs to Encourage Taxpayer Use,
Improve Customer Service, and
Enhance Computer Controls
of the 941 TeleFile Program**

October 1999

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This report has cleared the Treasury Inspector General for Tax Administration (TIGTA) 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

October 14, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Handwritten signature of Pamela J. Gardiner in cursive script.

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

This report presents the results of our review of the 1998 TeleFile Program used by small business taxpayers to file an Employer's Quarterly Federal Tax Return (Form 941). We evaluated the effectiveness of the Internal Revenue Service's (IRS) processes for ensuring that the 1998 Form 941 TeleFile Program was successfully implemented. This was the first year for nationwide TeleFile processing of Forms 941.

In summary, we found that the IRS established effective processes for ensuring that the 941 TeleFile Program was successfully implemented. The vast majority of Form 941 TeleFile returns filed in 1998 were accurately processed and posted to the IRS' Business Masterfile. However, to achieve its long-term goals of increased 941 TeleFile Program participation, the IRS needs to encourage eligible taxpayers to use the system, educate taxpayers on program changes, and provide quality customer service to all TeleFile users. In addition, improvements to the 941 TeleFile System would prevent the filing of multiple returns by a taxpayer and would allow the system to verify the filing history and electronic signature of TeleFile users.

The report recommends that the IRS analyze customer feedback information gathered in 1997 during the 941 TeleFile Program limited expansion to identify ways to increase participation. It also recommends that the IRS educate taxpayers on the requirements for using the 941 TeleFile System, as well as any program changes, and ensure quality customer service. In addition, the report recommends enhancements to the system to prevent the processing of duplicate Form 941 TeleFile returns and to verify the filing

history and electronic signatures of the taxpayers, or taxpayer representatives, who file Form 941 TeleFile returns.

The Chief Operations Officer agreed with the facts cited in the report and is taking appropriate corrective actions. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Scott E. Wilson, Associate Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

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The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

Executive Summary

TeleFile is an Internal Revenue Service (IRS) voice response system that allows taxpayers to file tax returns using a touch-tone telephone. In 1997, the IRS expanded the Telefile System to allow a limited number of small business taxpayers to file the Employer's Quarterly Federal Tax Return (Form 941) through the 941 TeleFile System. In 1998, TeleFile was further expanded to allow small businesses nationwide to use the system. For the first six months of 1998, almost 460,000 Form 941 returns were filed using the 941 TeleFile System. TeleFile is an important initiative in the IRS' overall plans to increase electronic filing of tax returns. The IRS has a goal of 16 million employment tax returns being filed electronically by the year 2002.

The TeleFile Program is coordinated through the National Office and includes all of the activities that enable taxpayers to file tax returns using the Telefile System. The objective of this audit was to evaluate the effectiveness of the IRS' processes for ensuring that the 1998 941 TeleFile Program was successfully implemented.

Results

The 941 TeleFile Program experienced a successful 1998 filing season, its first year of nationwide use (for the period January 1998 through the end of our fieldwork in November 1998). The IRS had effectively corrected prior audit findings, and ensured that Form 941 tax returns were accurately processed through the Telefile System and recorded on the taxpayers' accounts in the IRS' computer systems. However, to achieve the long-term goals of the 941 TeleFile Program, the IRS needs to:

- Encourage eligible taxpayers to use the 941 TeleFile Program.
- Provide quality customer service to TeleFile users.
- Improve 941 TeleFile computer controls to prevent taxpayers from filing multiple returns and allow the system to verify a TeleFile user's filing history and electronic signature.

The Internal Revenue Service Needs to Encourage Eligible Taxpayers to Use the 941 TeleFile Program

The customer feedback information gathered during the 1997 limited expansion should be used to increase 941 TeleFile Program participation. The IRS obtained information from taxpayers who chose not to use the 941 TeleFile System. This customer feedback showed that many taxpayers had not used the 941 TeleFile System either because they used a paid preparer or because they wanted a paper copy of the

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return. This information could have been used to focus the IRS' marketing efforts to address any taxpayer misconceptions about the system. During 1998, there was no significant increase in the percentage of eligible taxpayers who used the TeleFile Program. The IRS needs to focus its marketing efforts to encourage more taxpayers to use the 941 TeleFile System. This will enable the IRS to achieve its goal of 16 million electronically filed employment tax returns by the year 2002.

The Internal Revenue Service Needs to Provide Quality Customer Service to TeleFile Users

A more effective method for resolving taxpayer problems needs to be established.

The IRS has not implemented a process for delivering effective one-stop customer service to taxpayers using the 941 TeleFile Program (correctly handling their questions or concerns during their first contact with the IRS). Taxpayers with questions regarding Form 941 TeleFile returns are instructed to contact a customer service call site. The call site representative will then either contact the TeleFile Coordinator to ask the question for the taxpayer or will instruct the taxpayer to contact the Coordinator directly.

Taxpayers should be informed when they are no longer eligible to participate in the 941 TeleFile Program. If a taxpayer's annual Form 941 liability exceeds a certain dollar criteria, then the taxpayer is no longer eligible to use the 941 TeleFile System. The IRS has no procedures to notify taxpayers of this and to suggest other electronic methods for filing the Form 941 returns.

The 941 TeleFile forms and instructions should be timely updated to reflect program changes. The 941 TeleFile tax package (which includes the forms and instructions mailed to taxpayers) was not timely updated to indicate that the IRS would accept returns with a higher balance due amount than had been accepted previously. Some taxpayers may not have used the 941 TeleFile System because of the incorrect instructions.

The Internal Revenue Service Needs to Improve 941 TeleFile Computer Controls to Prevent Taxpayers From Filing Multiple Returns and Allow the System to Verify a TeleFile User's Filing History and Electronic Signature

The 941 TeleFile System should prevent multiple returns from being filed by a taxpayer. Normally, TeleFile returns are received at one processing site, with a backup site available to handle the excess volume. If both sites are receiving returns, and a taxpayer files a second (amended) return on the same day the first (original) return was filed, both returns could be accepted by TeleFile if the returns were processed at separate sites. The IRS would not be aware of the potential duplicate or amended return because data from the two sites are only merged and updated at the end of the day. When this occurs, TeleFile always processes the return received at the main processing site, and not

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the return from the backup site, even though the taxpayer may have intended otherwise. While this should not be a common occurrence, we performed some limited testing and identified several instances where a taxpayer filed more than one return on the same day. This is a systemic problem that will be compounded as the population of TeleFile users increases.

The look-back period could be used to ensure businesses are authenticated (i.e., verified) to use the 941 TeleFile System. The IRS requires taxpayers to be in business for at least 12 months before using the 941 TeleFile System. However, the existing 941 TeleFile System will accept and process returns from taxpayers, even though they are not authenticated to use the 941 TeleFile System. The IRS has a current process in place (the look-back period) that could be used to provide the IRS with more assurance that taxpayers have an established filing history when using the 941 TeleFile System.

The process for verifying the electronic signature of 941 TeleFile System users needs to be improved. There is not an effective process to ensure that returns filed using the 941 TeleFile System were actually filed by the taxpayers or their representatives. The process for verifying the electronic signatures of the taxpayers is incomplete because (1) only a sample of the electronic signatures are verified as correct, and (2) there are no procedures for following up on invalid signatures.

Summary of Recommendations

The IRS should analyze the customer feedback information gathered during the 1997 limited expansion to determine how 941 TeleFile Program participation can be increased. In addition, the IRS needs to ensure 941 TeleFile Program taxpayers are given quality customer service when resolving taxpayer problems with the 941 TeleFile Program. Also, the 941 TeleFile computer controls need to be enhanced to prevent duplicate Form 941 returns from being filed and to improve the process for verifying the filing history and electronic signature of taxpayers using the 941 TeleFile System.

Management's Response: IRS management agreed with the conditions cited in the report and has designed and, in some instances, implemented actions to correct the problems. To improve its marketing effort to increase participation in the 941 TeleFile Program, the IRS has contracted with a vendor to develop a comprehensive marketing and communication strategy that will focus on the Form 941 products. In addition, the IRS has made several enhancements and clarifications to the 1998 TeleFile tax package to address customer feedback received in 1997 and 1998.

To ensure 941 TeleFile Program taxpayers are given quality customer service, the IRS will update the instructions for its telephone representatives to include additional program detail, processing guidelines, and questions and answers. In addition, the IRS tested an

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Employment Tax call site for small businesses this past filing season and, based on the favorable results, plans to request the establishment of the call site.

To prevent duplicate returns from being filed, the IRS has implemented a process to eliminate duplicate returns when multiple sites are used to process returns. To improve the process for verifying the identity of taxpayers using TeleFile, the IRS will redesign the return filing confirmation number to make it unique for each taxpayer.

Management's complete response to the draft report is included as Appendix VI. (Note: the report recommendations were renumbered after management issued their response, and, therefore, do not correspond directly with the recommendation numbers shown in Appendix VI.)

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

Objective and Scope

The overall objective was to evaluate the effectiveness of the IRS' processes for ensuring that the 1998 941 TeleFile Program was successfully implemented.

The TeleFile Program for the Employer's Quarterly Federal Tax Return (Form 941) was designed to provide businesses with flexible and convenient ways to file returns. The overall objective of the audit was to evaluate the effectiveness of the Internal Revenue Service's (IRS) processes for ensuring that the 1998 941 TeleFile Program was successfully implemented.

Specifically, we:

- Evaluated actions taken in response to a prior audit report titled, "*Evaluation of the 1997 TeleFile Pilot - Business Masterfile*" (Reference Number 080704, Dated December 2, 1997) on the 1997 TeleFile limited expansion for Form 941 tax returns.
- Evaluated the effectiveness of the IRS' processes for ensuring Form 941 TeleFile returns were accurately processed nationwide.
- Evaluated the effectiveness of the IRS' publicity efforts to increase the number of businesses that file returns using the 941 TeleFile System.

The review was conducted between July 1998 and November 1998 at the National Office and the Cincinnati Service Center (CSC), with limited testing at the Tennessee (TCC) and Martinsburg Computing Centers (MCC). These centers are the IRS offices where TeleFile returns are filed and processed. We performed this review in accordance with *Government Auditing Standards*.

Appendix I provides the detailed objective, scope, and methodology used to conduct the audit; Appendix II lists the major contributors to this report; and Appendix III reflects the Report Distribution List.

During the review, we issued two audit memoranda communicating several issues requiring immediate attention. This report presents a summary of the two memoranda and additional audit results completed

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after the memoranda were issued. IRS management responded to the first memorandum. A copy of the first memorandum and management's response are included in Appendices IV and V, respectively.

Background

TeleFile is a voice response system that allows taxpayers to file tax returns using a touch-tone telephone. The Telefile System uses Electronic Filing (ELF) to process returns. The Program is coordinated through the Electronic Tax Administration (ETA) Office at the National Office and includes all of the activities that enable taxpayers to file tax returns using the Telefile System. Beginning in 1996, the TeleFile Program enabled individual taxpayers across the nation to file returns over the telephone. The IRS expanded the Program in 1997 by allowing a limited number of small business taxpayers to file Form 941 returns through the 941 TeleFile System.

On December 2, 1997, the IRS Inspection Service (now Treasury Inspector General for Tax Administration) issued a report titled, "*Evaluation of the 1997 TeleFile Pilot - Business Masterfile.*" The purpose of that audit was to evaluate controls over the 941 TeleFile Program and determine whether it was properly implemented. We concluded that the IRS experienced a successful limited expansion with 48,834 Form 941 returns filed and 99 percent of the businesses able to access the system on their first attempt. However, the following issues were also identified:

- The 941 TeleFile Program allowed new businesses and businesses that were not current with their filing requirements to participate in the Program.
- Taxpayers in the 941 TeleFile Program were not always properly verified.
- Instructions in the Form 941 TeleFile package contained an error that could be confusing to taxpayers.

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ETA management agreed with the results from the prior report and established plans for corrective action.

ETA management generally agreed with our recommendations and established plans for corrective action. In 1998, TeleFile was further expanded to allow small business taxpayers nationwide to file Form 941 returns electronically.

Results

Nationwide implementation of the 941 TeleFile Program was successful.

Overall, the IRS has established effective processes for ensuring that the 941 TeleFile Program was successfully implemented. For example, Form 941 TeleFile returns filed in 1998 were accurately processed and posted to the taxpayers' accounts. In addition, the IRS implemented corrective actions from the 1997 audit, which increased assurances that only authorized taxpayers participated in the Program.

Nearly 460,000 employment tax returns were filed for the first six months of calendar year 1998 using the 941 TeleFile System. In addition, approximately 94 percent of the business taxpayers that attempted to file over the telephone in the second quarter of calendar year 1998 were successful. The remaining six percent of the taxpayers were either not allowed by the IRS to complete their TeleFile return because they did not meet the eligibility requirements or they hung-up before completing their return.

Additional actions are needed to ensure the IRS achieves its goal of 16 million employment tax returns being filed electronically by the year 2002.

Although the IRS had a successful 1998 filing season (January 1998 through December 1998) for the 941 TeleFile Program, additional actions are needed to market the 941 TeleFile Program to eligible users and to improve customer service for TeleFile users. Improvements in these two areas should enhance the IRS' ability to achieve its goal of 16 million employment tax returns being filed electronically by the year 2002. The IRS needs to improve its marketing and customer service by:

- Using the customer feedback information gathered during the 1997 limited expansion to increase TeleFile Program participation.

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- Establishing a more effective method for resolving taxpayer problems with the 941 TeleFile Program.
- Informing taxpayers when they are no longer eligible to participate in the 941 TeleFile Program.
- Ensuring that 941 TeleFile Program forms and instructions are timely updated to reflect program changes.

Improvements to the computer controls would prevent a taxpayer from filing more than one return per day.

Our review also showed that improvements to the TeleFile computer controls would help ensure that the correct return is processed by:

- Preventing the filing of multiple returns by a taxpayer.
- Using the look-back period to ensure businesses using the 941 TeleFile System are authenticated (i.e., verified) to use the system.
- Improving the process of verifying the electronic signatures of 941 TeleFile System users.

The Internal Revenue Service Needs to Encourage Eligible Taxpayers to Use the 941 TeleFile Program

The IRS has not used customer feedback from 1997 to identify ways to better market the Program to eligible users.

The IRS should use the customer feedback information gathered during the 1997 limited expansion to increase 941 TeleFile Program participation. We found no evidence that the IRS focused its marketing on the 941 TeleFile Program non-users (those 941 filers who were eligible to use TeleFile but did not do so) to increase the number of businesses participating in the Program.

The IRS obtained customer feedback information during the 1997 Customer Satisfaction Survey, which included the reasons why taxpayers used or did not use the Telefile System. Customer feedback obtained from eligible non-users of the 941 TeleFile Program indicated that:

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- Approximately 39 percent of eligible non-users employed a paid tax preparer (called a third-party preparer) to complete and file their quarterly returns.
- Another 23 percent of the businesses did not use the Program because they wanted a copy of the return.

No marketing strategy was developed for the 941 TeleFile Program.

The IRS does not know why the third-party preparers did not file clients' returns electronically. The TeleFile team that measures quality recommended that the IRS market and educate third-party preparers to increase future use of the 941 TeleFile Program. However, the ETA office did not use the information gathered or prepare a 941 TeleFile Program marketing strategy for calendar year 1998 and there were no coordinated nationwide efforts toward third-party preparers. During 1998, IRS employees again traveled around the country to obtain customer feedback from businesses. The feedback contained some of the same issues as the previous year, further emphasizing the need for the IRS to analyze and use this information to address any taxpayer misconceptions about the System.

The National Office also did not provide any of the marketing information to the district TeleFile coordinators after nationwide implementation of the 941 TeleFile Program. These employees were responsible for marketing the 941 TeleFile Program and indicated that they received no marketing information specifically on the 941 TeleFile Program from the National Office. In addition, we were informed that the overall ETA marketing strategy efforts in 1998 focused primarily on the IRS' TeleFile Program for individual taxpayers (known as "Individual Masterfile (IMF) TeleFile"), and not on the 941 TeleFile Program.

The IRS sent TeleFile tax packages to eligible taxpayers in 1998; however, the lack of emphasis on marketing the 941 TeleFile Program in 1998 may be reflected in the low volume of participation in the Program. We determined that the percentage of eligible filers using the Telefile System in 1998 was almost the same as

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1997 (6.7 percent of the eligible filers in 1998 compared to 6.2 percent in 1997). Through the second quarter of calendar year 1998, approximately 460,000 employment tax returns were filed by businesses using the 941 TeleFile System. Unless there is a significant increase in the number of 941 TeleFile returns filed for the second half of calendar year 1998, the IRS will be about 24 percent below its estimate of 1.2 million 941 TeleFile returns filed for 1998.

The IRS has taken steps to improve its marketing efforts by contracting with an outside vendor to develop a strategy for marketing the 941 TeleFile Program. The contract will go into effect the first quarter of calendar year 1999. With the emphasis on customer service and on increasing the number of electronic returns, the IRS needs to consider any information that could be used to help achieve its goal of 16 million employment tax returns being filed electronically by the year 2002.

Recommendations

1. The IRS needs to improve its marketing towards eligible businesses to increase participation in the 941 TeleFile Program. Specific actions include:
 - Using the non-users' customer feedback responses to determine where to concentrate marketing efforts (i.e., third party preparers).
 - Clarifying the 941 TeleFile Program instructions and educational material to address taxpayers' misconceptions with the system (e.g., informing taxpayers that they will receive a confirmation number as proof of filing).

The IRS has evaluated the non-user responses from the 1997 limited expansion and will continue to use tax packages as its primary method for communicating directly with eligible users.

Management's Response: The IRS has evaluated the non-user responses and determined that since the IRS identifies eligible users prior to filing, and sends tax packages to those taxpayers, it will continue to emphasize a direct marketing approach by using the tax packages to communicate messages directly to eligible users.

ETA management has written tax package instructions to be easy to read and understand. They have also

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addressed many misconceptions of users, eligible non-users, and tax preparers. For example, the instruction regarding proof of filing or return acceptance has been revised to draw more emphasis to this benefit and to the issuance of a confirmation number by the Telefile System.

ETA management has also established a group to promote awareness and education to internal and external audiences. In addition, the IRS periodically provides articles and *Questions and Answers* on the 941 TeleFile Program to employees and taxpayers to improve publicity, education, and instructions for IRS electronic filing programs.

The IRS has contracted with a vendor to develop a comprehensive marketing and communications strategy that will focus on the “941 Suite” of products. The final plan “IRS Marketing for Business Masterfile (BMF) Initiatives” was delivered December 23, 1998. The plan gave further direction and provided recommendations for the best marketing approach for electronic business options.

The Internal Revenue Service Needs to Provide Quality Customer Service to TeleFile Users

An effective method for resolving taxpayer problems is needed.

The IRS needs to establish a more effective method for resolving taxpayer problems with the 941 TeleFile Program. The IRS has not established an effective method for delivering quality customer service to taxpayers using the 941 TeleFile Program. Currently, business taxpayers with questions about their 941 TeleFile return contact IRS Customer Service. The customer service representative then either contacts the TeleFile Coordinator or has the taxpayer contact the Coordinator. We were advised that the TeleFile Coordinator currently handles about 20 phone calls per day.

Since this was the first full year of nationwide use, most of these calls could be handled by the TeleFile

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Coordinator. However, the current process does not meet the IRS' goal of resolving taxpayers' problems during their initial contact with the IRS. In addition, as the number of TeleFile users increases, a more effective method will need to be implemented since TeleFile is not adequately staffed to handle taxpayer problems.

The IRS is testing an Employment Tax call site for 90 days at the MCC and an employment tax web page on the Internet. These two options, if implemented, could improve the customer service provided to businesses using the 941 TeleFile Program.

Some current 941 TeleFile Program users will not be allowed to use TeleFile for 1999 because their tax liabilities have exceeded the dollar threshold, but the IRS does not inform them of this.

Taxpayers should be informed when they are no longer eligible to participate in the 941 TeleFile Program. The 941 TeleFile Program will not allow businesses with tax liabilities greater than \$50,000 to use the system because those businesses are required to file an additional supporting schedule with the Form 941 return.

The IRS uses a taxpayer's prior filing history to determine the taxpayer's requirements for depositing employment tax payments (known as Federal Tax Deposits or FTDs) towards their yearly tax liability. Specifically, the IRS uses the taxpayer's Form 941 filing history for 12 months (e.g., beginning July 1st and ending June 30th of the prior year). This period is called the look-back period. Once the taxpayer's total tax liability exceeds \$50,000, they are required to deposit their FTDs on a semi-weekly basis and are also required to file an Employer's Record of Federal Tax Liability (Schedule B), with the Form 941 return.

When business taxpayers exceed the \$50,000 liability threshold, the IRS issues an Annual Notification of FTD Deposit Requirements (CP-136 notice), advising them that their FTD requirements have changed from monthly to semi-weekly. However, the notice does not mention that the taxpayer is no longer eligible to use the 941 TeleFile Program because they exceeded the threshold. It also does not indicate that they are now required to file a Schedule B with the Form 941 return.

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Once a taxpayer is required to file a Schedule B, they cannot file electronically through the Telefile System. During the first six months of 1998, there were 236,344 filers who attempted to use TeleFile and 8,294 of these filers were not allowed to use the System because they were required to file a Schedule B with the Form 941 return. These Schedule B filers (3.5 percent of the population) received a CP-136 notice and may have subsequently called the IRS to determine why they were no longer eligible to use TeleFile. These types of calls could be prevented if the IRS notifies the taxpayer when they are no longer eligible to use the 941 TeleFile System. The IRS could use the CP-136 to advise taxpayers that they are no longer eligible to use TeleFile and that they are now required to file a Schedule B with the Form 941 return. The notice could also advise the taxpayer of other alternatives for filing their returns, such as ELF.

TeleFile packages had not been updated to reflect the revised balance due limitation of \$1,000.

The IRS needs to ensure that the 941 TeleFile Program forms and instructions are timely updated to reflect program changes. On October 2, 1998, we issued a memorandum advising the IRS that the instructions to the 941 TeleFile package had not been updated to reflect a revision to the criteria scheduled for use with the Telefile System in the fourth quarter of calendar year 1998. This criteria change involved permitting taxpayers with a balance due tax liability of \$1,000 or less to use the 941 TeleFile System. Prior to this criteria change, taxpayers could only use the 941 TeleFile System if they had a balance due of \$500 or less.

Our review of the fourth quarter TeleFile tax package instructions and the 941 TeleFile tax form showed that they had not been revised to reflect that the balance due criteria of \$500 was raised to \$1,000. Line 15 of the 941 TeleFile tax form incorrectly instructed the taxpayers that if they owed a balance due of \$500 or more, then they could not use the 941 TeleFile System. This information was also included on Page TEL-1 of the tax package instructions.

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The IRS was expected to mail approximately 3.5 million fourth quarter TeleFile packages to taxpayers in December 1998. The omission to the instructions may have caused some eligible taxpayers to not use the 941 TeleFile System. The incorrect instructions may impact IRS management's ability to achieve their goal of 16 million employment tax returns being filed electronically by the year 2002.

The IRS is currently in the process of enhancing the 941 TeleFile Program to accept all balance due returns effective January 4, 1999. This change will eliminate the balance due dollar restriction.

Recommendations

2. The IRS should ensure that Customer Service representatives located at Customer Service sites are adequately trained to handle 941 TeleFile Program problems.
3. The IRS should provide additional wording to the CP-136 notice to advise taxpayers they are no longer eligible to use the 941 TeleFile Program and to advise them of other electronic alternatives for filing their returns, such as ELF.
4. In a memorandum dated October 2, 1998, we recommended that the fourth and subsequent quarter TeleFile tax packages be revised to correctly instruct taxpayers on the revised criteria.

The IRS is supplementing Part 21 of the IRM to include additional detail and instructions when responding to calls from taxpayers, and has proposed the establishment of an Employment Tax call site.

Management's Response: The IRS will supplement Part 21 of the Internal Revenue Manual (IRM) for customer service representatives to include additional program detail and processing instructions when responding to calls from taxpayers.

The test for the new Employment Tax call site was conducted between October and December 1998. Based on the results of the test, the IRS has proposed the establishment of the call site.

IRS management has requested a computer code for the 941 TeleFile Program to enable them to track and retain eligible filers. Based on Information Systems resources,

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The IRS is exploring the recommendation to include information about a change in a taxpayer's eligibility for the 941 TeleFile Program in the CP-136 notice.

the assignment of this code may not be possible until the year 2001.

The IRS will explore the recommendation to include information in the CP-136 notice that will advise the taxpayer that if they are required to file a Schedule B, they are no longer eligible to use the 941 TeleFile System. The IRS is also working on incorporating the Schedule B into the 941 TeleFile System, which is the basis for the expansion of the 941 TeleFile Program.

The IRS explained that it could not revise the 941 TeleFile tax package prior to mailing the fourth quarter packages. The TeleFile instructions and tax package were subsequently updated and the changes were effective in the mailout for the first quarter of calendar year 1999.

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Multiple Form 941 TeleFile returns are being filed.

The 941 TeleFile computer system should prevent the filing of multiple returns by a taxpayer. Form 941 TeleFile returns are primarily processed at the TCC. If the TCC cannot handle the volume of returns being filed, or if the Telefile System is not working at TCC, the CSC serves as the backup site to handle the excess volume. The CSC currently accepts TeleFile returns only during peak filing periods, which are the last two days of the filing month. Returns from the two locations are merged and updated on the 941 TeleFile System at the end of each day. In contrast, the IRS' IMF TeleFile computer system, which processes Individual Income Tax Returns (Form 1040), is updated every 15 minutes.

Occasionally, taxpayers file a second, or amended, return to correct errors or omissions in their original tax return. The TeleFile tax package instructions state that amended returns cannot be filed through TeleFile and

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must be filed on paper. However, if a taxpayer attempts to file more than one Form 941 TeleFile return in the same peak filing day, both returns could be processed separately at the two sites. Since the Systems are only merged and updated at the end of the day, TeleFile would not be aware of the potential duplicate or amended return and would accept both returns. However, when there are duplicate returns, TeleFile always processes the return received at the primary processing site (TCC). The return filed at the CSC, the backup site, would not be processed even though the taxpayer may have intended otherwise.

Our audit showed that the 941 TeleFile System did not prevent multiple returns from being filed when both the TCC and the CSC were receiving TeleFile returns. We tested the peak processing period for the second quarter of calendar year 1998 and identified 17 business taxpayers that filed more than one 941 return on the Telefile System.

This process may cause the taxpayer to contact the IRS to ensure the correct return was processed, which increases taxpayer burden. This problem will be compounded as the volume of both Form 1040 and Form 941 TeleFile returns increases and there are more days when both the TCC and the CSC are accepting TeleFile returns.

Businesses are filing returns through the 941 TeleFile System without being authenticated (i.e., verified) to use the system.

The IRS could use the look-back period to ensure businesses using the 941 TeleFile System are authenticated (i.e., verified) to use the System. Under existing processes, business taxpayers can participate in the 941 TeleFile Program without being authenticated. Each quarter, the IRS creates a database of taxpayers who are eligible to use the 941 TeleFile System. Each of the taxpayers in the database has been in business for at least the last 12 months. Requiring taxpayers to be in business for at least a year assures the IRS that the 941 TeleFile System is only used by businesses with an established filing history. Using the look-back period, which relies on the Form 941 filing history over the past year, will provide the IRS with more assurance that

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taxpayers have an established filing history when using the 941 TeleFile System.

To verify the taxpayer's identity, the IRS requires the taxpayer to enter the prior year's third quarter total FTD amount each time a Form 941 return is filed. If the taxpayer did not file a prior year third quarter Form 941 return or have any FTDs for that quarter and enters a zero in the FTD amount field, the computer allows the taxpayer to file the current Form 941 return. As a result, businesses are able to participate in the Program even though they have not established a filing history to determine their filing requirements.

However, it is possible due to timing for an eligible taxpayer (in business for at least 12 months) to not have a prior year third quarter FTD amount. For example, taxpayers eligible to file for the fourth quarter of 1998 (October 1998 - December 1998) would only have to be in business since the fourth quarter of calendar year 1997 (October 1997 - December 1997). These taxpayers would not have a prior year third quarter FTD amount because they were not in business during the third quarter of calendar year 1997.

The IRS should improve the process of verifying the electronic signatures of the 941 TeleFile System users. Currently, taxpayers electronically sign their returns by entering their Social Security Number (SSN) and their last name. After TeleFile accepts the return, the System provides a confirmation number to the taxpayer. The confirmation number is based, in part, on the date the return is filed.

Because the taxpayer's electronic signature (name and SSN) cannot be verified on-line against the IRS' computer system, a sample of electronic signatures is manually reviewed at the end of the quarter as a quality measure. The TeleFile Coordinator selects a random sample of returns and manually matches the names and SSNs to the IRS' Masterfile to ensure the returns were filed by the taxpayer or his or her representative.

Five percent of the electronic signatures were not valid.

The TeleFile Coordinator's review at the end of the first quarter of calendar year 1998 showed that about

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

95 percent of the electronic signatures were valid. Five percent of the signatures were not valid because the SSN did not match the name control. However, the IRS does not have procedures to follow up on the invalid signatures, allowing potential invalid returns to be filed.

This raises the question about the purpose of this quality review. If it is important to verify the signature by manually reviewing a sample of returns, then the IRS should follow up on the invalid signatures.

Recommendations

5. The IRS should update the 941 TeleFile System using the same update process used by the IMF Telefile System. This process would result in updates every 15 minutes, which reduces the risk of multiple returns being filed.
6. The IRS should require taxpayers to be in business for the entire look-back period to be eligible to participate in the 941 TeleFile Program.
7. The IRS should assess the risks associated with the electronic signature process and develop appropriate actions based on this assessment. If the IRS elects to continue the existing process, we recommend that the IRS determine an acceptable error rate for invalid signatures and take appropriate action when the error rate is exceeded.

Management's Response: To prevent duplicate returns from being filed, the IRS has implemented a Data Replication process to eliminate duplicate returns when multiple sites are used to process returns . This process will be tracked to ensure it is successful.

ETA management will analyze the computer program criteria for determining if a taxpayer is eligible to use the 941 TeleFile System to ensure it is capturing eligible filers for the full look-back period. ETA management is also researching the possibility of allowing all new businesses that otherwise meet the 941 TeleFile Program requirements to use the System.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

The IRS is redesigning the return filing confirmation number to make it unique for each taxpayer.

The IRS is researching a random sample of SSNs for invalid electronic signatures. The IRS is sending letters to the taxpayers who provided the invalid signatures, and informing them their tax return may be delayed until the letter is returned with a valid signature. The IRS is also working on redesigning the return filing confirmation number so that it will be unique to each taxpayer, which will allow the IRS to continue to track the electronic signature information on a quarterly basis. The results of the electronic signature information and an assessment of the error rate will continue to be reported.

Conclusion

Ninety-four percent of the businesses that attempted to use the 941 TeleFile System in the second quarter of calendar year 1998 were successful.

Overall, the IRS experienced a successful 1998 filing season for the 941 TeleFile Program. Returns were accurately processed and approximately 94 percent of the business taxpayers attempting to file electronically through the 941 TeleFile System were successful. Improving the marketing and customer service processes will increase assurances that more of the eligible filers will use the 941 TeleFile Program in the future. In addition, improvements to the 941 TeleFile System will prevent taxpayers from filing multiple returns and will improve the process for verifying the filing history and electronic signatures of taxpayers using the 941 TeleFile System.

**The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve
Customer Service, and Enhance Computer Controls of the 941 TeleFile Program**

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the effectiveness of the Internal Revenue Service's (IRS) processes for ensuring that the 1998 941 TeleFile Program was successfully implemented. To accomplish the overall objective, we conducted the following tests:

- I. Evaluated whether the IRS took appropriate actions to address the following issues identified in the prior review.
 - A. Determined whether taxpayers were adequately identified by selecting a sample of 50 Employer's Quarterly Federal Tax Return (Form 941) TeleFile returns to determine whether the taxpayer had to enter the correct amount in the security field (total third quarter Federal Tax Deposit amount from the prior year) before being allowed to file.
 - B. Determined whether only eligible taxpayers filed 941 TeleFile returns.
- II. Matched the Martinsburg Computing Center requirements for extracting 1998 eligible 941 TeleFile businesses to the 1998 TeleFile package.
- III. Reviewed 941 TeleFile returns filed for the second quarter of calendar year 1998 to determine whether only eligible businesses filed.
- IV. Determined the effectiveness of the IRS' processes for ensuring 941 TeleFile returns were accurately processed and accounted for during the nationwide implementation.
 - A. Reviewed a sample of 114 Form 941 TeleFile returns filed for the second quarter of calendar year 1998 and determined whether taxpayer return information posted correctly to the Masterfile.
 - B. Tracked the second quarter 941 TeleFile returns from the Tennessee Computing Center and Cincinnati Service Center Telefile Systems to the Masterfile.
 - C. Evaluated the IRS' efforts to verify the electronic signatures (Social Security Numbers and last name) used to sign the 941 TeleFile returns.
- V. Assessed publicity efforts for increasing the number of businesses who filed 1998 returns using the 941 TeleFile Program.
 - A. Evaluated the IRS' efforts to market the 1998 941 TeleFile Program by reviewing marketing materials and interviewing project office employees.

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- B. Reviewed the 941 TeleFile Program customer feedback gathered in 1997 and determined whether the IRS had an effective strategy to increase the number of filers.
- C. Determined whether the IRS provided adequate information to Customer Service personnel to enable them to resolve 941 TeleFile Program problems.

**The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve
Customer Service, and Enhance Computer Controls of the 941 TeleFile Program**

Appendix II

Major Contributors to This Report

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Customer Service, and Enhance Computer Controls of the 941 TeleFile Program**

Appendix III

Report Distribution List

Chief Operations Officer C:OP
Assistant Commissioner (Electronic Tax Administration) OP:ETA
Assistant Commissioner (Forms & Submission Processing) OP:FS
Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP
National Director, Electronic Program Operations OP:ETA:O
National Director, Tax Forms and Publications Divisions OP:FS:FP
National Director for Legislative Affairs CL:LA
Office of Management Controls M:CFO:A:M

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

Appendix IV

Memorandum #1 - Business Masterfile TeleFile 1998 Expansion

October 2, 1998

MEMORANDUM FOR NATIONAL DIRECTOR
TAX FORMS AND PUBLICATIONS DIVISION OP:FS:FP

FROM: (for) REGIONAL INSPECTOR
SOUTHEAST REGION *m. Susan Boehmer*

SUBJECT: BMF TeleFile 1998 Expansion – Internal Audit Memorandum #1

This memorandum is to advise you of an error in the fourth quarter 941 TeleFile Instructions that may adversely effect the number of taxpayers participating in the BMF TeleFile program. Although Internal Revenue Manual 1289 provides 30 workdays for responding to an Internal Audit memorandum, we are requesting that you advise us of the action you plan take in a written response within 10 workdays. This request is being made as a result of the time sensitivity of the issue. If you have any suggestions for improving or clarifying this memorandum, please contact me or Audit Manager Jim Westcott at (606) 292-5162.

Instructions to the BMF TeleFile package have not been updated to reflect program enhancements scheduled for the Telefile System in the fourth quarter.

We determined that the 941 TeleFile Tax packages have not been revised to show that the \$500 balance due limit is no longer in effect. The Service is in the process of enhancing the BMF TeleFile program to accept all balance due returns effective January 4, 1999. This change will eliminate the restriction for taxpayers who owe a balance due of \$500 or more. Previously, if a taxpayer attempted to file and had a balance due of \$500 or more they would receive a message indicating that their balance due exceeded the balance due amount that TeleFile can accept and that the Service cannot continue with the processing of their return. Furthermore, taxpayers would be advised to file a paper return for the quarter.

Our review showed that the TeleFile package instructions and the 941 TeleFile Tax Record have not been revised to eliminate the balance due criteria of \$500 or more. Line 15 of the 941 TeleFile Tax Record incorrectly tells the taxpayer that if they owe a balance due of \$500 or more, they cannot use 941 TeleFile. This information is also included on Page TEL-1 of the tax package instructions. Modifications to the 941 TeleFile Program for the fourth quarter eliminated the restriction of taxpayers who owe a balance due of

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

\$500 or more. The BMF TeleFile packages are scheduled to be mailed in December 1998, for the fourth quarter.

This oversight to the instructions will cause taxpayers not to use the BMF TeleFile program. We estimate the Service plans to mail approximately 3.4 million 941TeleFile packages for the fourth quarter. With the emphasis on customer service and on increasing the number of taxpayers filing returns electronically, the Service cannot afford to overlook issues that may impact these goals.

Recommendation

To minimize losing potential taxpayers that are eligible to file 941 TeleFile, we recommend that the fourth and subsequent quarter TeleFile tax packages, including the 941 TeleFile Tax Record line 15, be revised by removing the reference to the \$500 balance due.

cc:

Assistant Commissioner (Electronic Tax Administration) OP:ETA

National Director, Electronic Program Operations OP:ETA:O

Assistant Commissioner (Forms and Submission Processing) OP:FS

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

Appendix V

Management's Response to Memorandum #1



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

OCT 21 1998

MEMORANDUM FOR REGIONAL INSPECTOR, SOUTHEAST REGION

FROM: Sheldon D. Schwartz 
National Director, Tax Forms and
Publications Division OP:FS:FP

SUBJECT: BMF TeleFile 1998 Expansion - Internal Audit Memorandum #1

Thank you for the opportunity to respond to the recommendations in the subject Internal Audit memorandum of findings. The memorandum of findings was shared with the National Director, Electronic Program Operations.

Recommendation:

Revise the fourth and subsequent quarter TeleFile tax packages by removing the reference to the \$500 limitation.

It was noted that the fourth quarter 941 TeleFile tax package was not revised to allow employers to use TeleFile regardless of their balance due amount.

Assessment of Cause:

Continuation of the \$500 requirement in the Form 941 Telefile package was not an oversight. Rather, there was insufficient time for the Service to implement the Telefile program changes for 1998; thus, the Telefile instructions could not be revised. Instead, a January 1999 implementation date was planned. The third and fourth quarter TeleFile instructions were revised, however, to indicate the regulatory increase in the deposit threshold from \$500 to \$1,000.

The regulation to increase the deposit threshold was effective July 1, 1998. An amended RIS including the Telefile change was submitted on July 20, 1998. A response was received from IS August 21, 1998, approving the program changes with a January 4, 1999, implementation date. Copies of the response to requests for information services are attached for your information. Implementation was also hampered by the need to amend the Statement of Work (requiring a minimum 30-day time frame for submitting the new requirements to the contractor) and changes to the Call Flow and Script.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Corrective Action:

We have been assured that the necessary programming will be in place for the first quarter 1999. The TeleFile Tax Record and instructions for that quarter will reflect the change to eliminate the restriction on balance due filing.

If you have any questions, please contact me or a member of your staff may contact John Harris at (202) 622-3557

Implementation Date:

January, 1999

Responsible Officials:

National Director, Electronic Program Operations
National Director, Tax Forms and Publications Division

Attachments

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

Appendix VI

Management's Response to the Draft Report



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

March 8, 1999

OFFICE OF TREASURY
INSPECTOR GENERAL
RECEIVED
1999 03 - 45V01 QDM
MAR 11 P 2:00

MEMORANDUM FOR ACTING TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Chief Operations Officer OP

SUBJECT:

Draft Internal Audit Report: Review of the 1998 TeleFile Program - Business Master File

This memorandum is in response to the Summary Recommendations listed in the Draft Internal Audit Report: Review of the 1998 TeleFile Program - Business Master File. We would like to have the following information included in the Final Internal Audit Report.

Recommendation # 1:

The Service needs to improve its communication and marketing processes to increase assurances that eligible businesses will use the system to file their 941 tax returns. Some specific actions to increase the number of taxpayers participating in the 941 TeleFile program include:

- Utilizing the non-users' survey responses to determine where to concentrate marketing efforts (e.g., third party preparers).
- Clarifying the publicity, education, and instructions to address taxpayers' misconceptions with the system (e.g., taxpayers do receive a proof of filing number).

Assessment of Cause:

The Service has not fully utilized information gathered during the pilot in 1997 to increase participation for 941 TeleFile.

Corrective Actions:

- Utilize the non-users' survey responses to determine where to concentrate marketing efforts (i.e., third party preparers)

The 1997 Evaluation Report identifies non-user responses regarding the best way to market 941 TeleFile. "Approximately 85 percent of the businesses indicated the IRS should market 941 TeleFile using the 941 mailing packages that are sent to businesses on a quarterly basis."

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Since the IRS pre-identifies eligible users, emphasis on the direct mail marketing approach has been one of the marketing tactics employed since the inception of the program. Using the tax package as a direct marketing tool allows the IRS to get instruction, information, and marketing messages directly to eligible users.

Many of the tax package enhancements for 1998 include messages developed in response to the 1997 and 1998 Quality Measures Focus Group results.

The top four reasons for non-use were:

- 1) Used a paid preparer,
- 2) Wanted a paper copy of the return,
- 3) Don't like automated systems,
- 4) Felt they did not have enough information to use the system.

1998 tax package enhancements were as follows:

- 1) The 941 TeleFile program is an automated telephone system that permits small businesses to file their "Employer's Quarterly Federal Tax Return" interactively. The system was intentionally designed for use by small business owners, especially those that do not employ a tax practitioner. Our research shows over half of the businesses responding to the 1997 survey during the pilot are incorporated and over 30 percent are sole proprietors. Approximately 87 percent of the employers had seven or fewer employees with the majority of businesses (57.7 percent) having two or three. This data is very similar to the distribution of businesses by employee size that successfully used 941 TeleFile.
- 2) An additional instruction was added to page Tel-1, to inform the user that the 941 TeleFile Tax Record is their official tax document. The message, "it's official! The 941 TeleFile Tax Record is an official record of your tax return." In addition, the instruction in the margin was revised to read, "Keep the Tax Record for Your Files." These messages were revised or included to inform the user they have a paper copy of the return and it is official.
- 3) The first instruction on page Tel-1 is intended to inform the user about the ease of using the 941 TeleFile system. Research shows that people are apprehensive about automated systems because they believe such systems are often complex and do not allow for mistakes or changes by the user. The left margin of the same page includes the three easy steps to "File by Phone."

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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- 4) **Electronic Tax Administration (ETA) management and internal partners have deliberately written and designed the instructions to be easy to read and understand. The user Focus Groups indicated the design and format of the package was easy to read and user friendly. We must explore ways to further enhance the tax package that will encourage non-users and those that are apprehensive to try 941 TeleFile.**

Additionally, the IRS has contracted with a vendor to develop a comprehensive marketing and communications strategy that will focus on the "941 Suite" of products, and consider the Electronic Federal Tax Payment System, Simplified Tax and Wage Reporting System (STAWRS) program, and other business taxes. The final plan, "IRS Marketing for BMF Initiatives," was delivered December 23, 1998. The plan gave further direction and provided recommendations for the best marketing approach for the electronic business options within ETA including, 941e-file, 941TeleFile, and the 941On-Line pilot. A second Statement of Work (SOW) is expected to be in place by mid-February. This SOW will direct the contractor to execute the plan.

- Clarify the publicity, education, and instructions to address taxpayers' misconceptions with the system (i.e., taxpayers do receive proof of filing number).

The 941TeleFile partners, listed previously, have worked together to address many of the misconceptions of users, non-users, and tax preparers. For example, the instruction regarding proof of filing/or return acceptance has been revised to draw more emphasis to this benefit and the issuance of a confirmation number by the TeleFile system.

The BMF Partners group (a second group) includes participants from ETA, Communications Division, the TeleFile Project Office, Projections and Forecasting, the Office of Public Liaison and Small Business Affairs, the Statistical Support section - SOI, Houston DORA, Tax Forms and Publications, and Taxpayer Service. The technical business programs include: 941 On-Line, 941 TeleFile, 941e-file, STAWRS, EFTPS, F1041, F1065, F5500 series, etc.). The purpose of this group, headed by ETA Program Enhancements, is to provide a forum for discussion, a central point of coordination, and a problem solving arena where all functional areas have the opportunity to participate in the decision making process. This group has direct impact on promoting awareness and education to internal and external audiences.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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In addition to utilizing the BMF marketing contract, partnerships and working groups, to improve the publicity, education, and instructions to taxpayers, the IRS regularly:

- Initiates Taxpayer Service Bulletin Board (TEBB) announcements to increase awareness of Customer Service Representatives, Walk-In employees, and other field employees tasked with marketing or educating others about the BMF programs.
- Submits Q&A information for employees tasked with marketing and educating, employers, software developers, and others that may have questions or require additional information about the program.
- Provides the ETA Q&A Kit (Publication 1859) that contains Qs&As for all ETA related programs (IMF & BMF). This information is distributed electronically and in print.
- Provides articles for publication in the quarterly "SSA/IRS Reporter Newsletter: A Newsletter for Employers" to disseminate, emphasize, or clarify messages, instructions, systemic changes, etc.
- Updates technical IRMs used by field employees.
- Initiates periodic e-mail messages to ETA Coordinators, Field Communicators, and Taxpayer Education Coordinators (including A/C International).

The opportunity to use the automated 941 TeleFile system was announced in the 1996 Winter edition of the SSA/IRS Newsletter, a newsletter designed to keep employers informed. An additional article of "announcement" appeared in the 1997 Spring edition of the newsletter. Each quarter, an article is submitted for publication that emphasizes a particular technical issue, marketing message, or business owner misconception, relevant to users and non-users.

NOTE: The IRS is also developing a BMF Marketing Research Database. It is expected to be functional in 1999.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Implementation:

Proposed June 1, 1999

Responsible Official:

AC (Electronic Tax Administration)

Recommendation # 2:

We recommend that customer service representatives located at customer service sites be adequately trained to handle 941TeleFile inquiries.

Assessment of Cause:

The Service has not established an effective method for delivering quality customer service to taxpayers using 941TeleFile. Currently, business taxpayers with questions regarding their 941TeleFile return contact their customer service call site. The customer service site representative either contacts the TeleFile site representative, the TeleFile coordinator, or has the taxpayer contact the coordinator. A more effective method of responding to taxpayer phone calls needs to be implemented. The telephone unit is not adequately staffed to handle taxpayer inquiries. The current methodology does not meet the Service's goal of resolving taxpayers' inquiries during their initial contact with the Service. The Service is currently piloting an Employment Tax call site for 90 days at Martinsburg Computing Center (MCC) and an Employment Tax web page. If expanded, this could be one solution to providing quality customer service for businesses using 941 TeleFile.

Corrective Action:

We are currently working on redesigning the confirmation number so that it will be unique to each taxpayer, which will provide a more efficient tracking mechanism to ensure 941TeleFile packages are mailed to eligible taxpayers.

Currently, business taxpayers with questions regarding their 941TeleFile return contact their local customer service call site. If the Customer Service Representative (CSR) is unable to answer the question, local procedure directs them to contact the ETA Coordinator. If the local ETA Coordinator is unable to resolve the issue, he or she has the option of contacting an analyst in Headquarters or the Cincinnati Service Center (CSC) for more information.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Currently, taxpayers have access to 941TeleFile information through the IRS web-site where information can be dispensed and questions and answers exchanged through e-mail. We are supplementing the IRM 21 (Customer Service IRM) for CSRs to include additional program detail, processing instructions, questions and answers, etc. The pilot for the Employment Tax call site began 10/98 to 12/98 at MCC. Based on the results of the pilot, the Office of Specialty Taxes has proposed that Customer Service support the establishment of the call site. A memorandum was submitted February 25, 1999, by the Assistant Commissioner (Customer Service) supporting the action to address the concerns of small businesses.

Implementation:

Proposed April 1, 1999 for IRM 21 (Customer Service IRM)

Responsible Official:

AC (Electronic Tax Administration)

Recommendation # 3:

We recommend that additional wording be added to the CP-136 notice to advise taxpayers they are no longer eligible to use 941TeleFile and to advise them of other filing options, such as ELF.

Assessment of Cause:

The 941TeleFile criteria will not allow larger businesses to use the system. The audit identified some taxpayers that exceeded the maximum dollar liability threshold. The Service issues CP-136 notices to taxpayers advising them that their Federal Tax Deposit Requirements have changed from monthly to semiweekly. The CP-136 notice does not advise the taxpayer that they are no longer eligible to use the TeleFile system because they have exceeded the threshold. It also does not indicate that they are now required to file a Schedule B.

Corrective Action:

We have requested a Filing Requirement code (FRC) assignment for 941TeleFile which will allow us to track and retain eligible filers. Based on Information Systems (IS) resources, the assignment of this code may not be possible until the year 2001. We are exploring the recommendation to include information in the CP-136 notice that will advise the taxpayer that if they are required to file a Schedule B, he/she is no longer eligible to use the 941TeleFile system. The information to track eligible filers is not stored on the BMF TeleFile database. This would require some sort of programming effort on the part of MCC programmers. The FRC code will allow us to obtain a cleaner extract to create our 941TeleFile database.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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The 941e-File program, designed to allow reporting agents the ability to electronically file their clients' returns via a personal computer and modem, is not a practical alternative for filing. This is for bulk filers. The 941 On-Line Filing program, scheduled for October 1, 1999, allows business filers the option of preparing and filing their tax return using their personal computer, modem, and off-the-shelf tax preparation software to transmit tax return information to a third party transmitter.

Implementation:

Proposed April 1, 2001 for the FRC code

Responsible Official:

AC (Electronic Tax Administration)

Recommendation # 4:

We recommend that the Service require the taxpayers to be in business for the entire look back period to be eligible to participate in the 941TeleFile program or develop a new authentication process that will enable new businesses to immediately use the system.

Assessment of Cause:

Businesses are filing returns without being authenticated. The Service's look back period could also be used to establish additional controls to authenticate business taxpayers using 941TeleFile.

Corrective Action:

MCC is required to extract the data for eligible filers based on the criteria. The criteria asks that the extract reflect eligible filers who are in business for the full look back period. We were recently made aware of problems with taxpayers exceeding the maximum dollar liability and are currently researching this issue. We are continuing to research the possibility of allowing all new businesses that otherwise meet the 941TeleFile requirements to use the system. We are currently working on incorporating the Schedule B into the 941TeleFile system. Exploring these items becomes our basis for the expansion of 941TeleFile. The results of the analysis of capturing eligible filers for the full look back period and those filers exceeding the maximum dollar liability will coincide with the expansion efforts listed in this paragraph.

Implementation:

Proposed April 1, 2001 for the expansion of 941TeleFile

Responsible Official:

AC (Electronic Tax Administration)

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Recommendation # 5:

In an effort to minimize the loss of taxpayers electing to file 941TeleFile, we issued a memorandum recommending that the fourth and subsequent quarter TeleFile tax packages be revised to correctly instruct taxpayers on the revised criteria.

Management Corrective Action: Management advised us that they could not revise the tax package prior to mailing the fourth quarter packages. However, all revisions were completed by January 1, 1999.

Assessment of Cause:

The TeleFile instructions and packages were not updated to reflect the revised balance due limitation of \$1,000.

Corrective Action:

The TeleFile instructions and tax package were updated and will be effective in the mailout for the first quarter processing on April 1, 1999, to reflect program enhancements implemented by the TeleFile system in the fourth quarter based on the FTD Deposit increase implemented July 1, 1998.

Implementation:

Completed January 1, 1999

Responsible Official:

AC (Electronic Tax Administration)

Recommendation # 6:

We recommend that the 941TeleFile system use the same update process as that used by the IMF TeleFile system. This would result in updates every 15 minutes, which would reduce the risk of multiple Forms 941 being filed.

Assessment of Cause:

The TeleFile system does not always prevent multiple returns from being filed during peak hours when Tennessee Computing Center (TCC) and (CSC) are both accepting Form 941TeleFile returns. The IMF system is updated every 15 minutes, which reduces the risk of multiple returns being filed.

Corrective Action:

We have implemented a Data Replication process to eliminate duplicate returns when multiple sites are used to process returns. We are continuing to track this process to ensure the Data Replication process is successful.

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program

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Implementation:

Completed January 1, 1999

Responsible Official:

AC (Electronic Tax Administration)

Recommendation # 7:

We recommend that management assess the risks associated with the electronic signature process and develop appropriate actions based on this assessment. If management elects to continue with the existing methodology, we recommend that a tolerance for the sample error rate be established and appropriate action be taken when the tolerance is exceeded.

Assessment of Cause:

The current authentication process shows that approximately 95 percent of the electronic signatures were valid. The remaining 5 percent were invalid as a result of the Social Security Number (SSN) not matching the name control. Under the existing process, nothing is done with the invalid returns. Management needs to assess the risks associated with the electronic signature process and develop appropriate measures based on this assessment. If management elects to continue with the existing methodology, Internal Audit recommends that a tolerance for the sample error rate be established and appropriate action be taken when the tolerance is exceeded.

Corrective Action:

Research is being done in the field on a random sample of SSNs for electronic signature and letters are being sent to taxpayers who have provided invalid signatures informing them their tax return may be delayed until they return the letter with a valid signature. We are currently working on redesigning the confirmation number so that it will be unique to each taxpayer, and will allow us to continue to track the signature information on a quarterly basis.

The results of the signature data and an assessment of the error rate will continue to be reported in the Quality Measures Report, which will be submitted each quarter. Enhancements to the 941 TeleFile system have been installed in January 1999 to improve the accuracy and validity of information received from taxpayers.

Implementation:

Completed January 1, 1999

Responsible Official:

AC (Electronic Tax Administration)