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**TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION**



***Analysis of Resources Allocated to  
Taxpayer Services***

**December 27, 2016**

**Reference Number: 2017-40-013**

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.

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## HIGHLIGHTS

### ANALYSIS OF RESOURCES ALLOCATED TO TAXPAYER SERVICES

## Highlights

**Final Report issued on  
December 27, 2016**

Highlights of Reference Number: 2017-40-013 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The IRS collects revenue to fund the Federal Government and administers the Nation's tax laws. The IRS's strategic goals are to: 1) deliver high-quality, timely service to reduce taxpayer burden and encourage voluntary compliance and 2) effectively enforce the tax laws to ensure compliance with tax responsibilities and to combat fraud. Congress appropriated \$11.2 billion to the IRS in Fiscal Year (FY) 2016, including \$290 million for key areas that directly support taxpayers.

### WHY TIGTA DID THE AUDIT

Our analysis was performed to address congressional inquiries regarding the IRS's allocation of resources to taxpayer services. The IRS has stated that budgetary constraints resulted in the need to reduce its taxpayer service activities, including its telephone assistance, in FY 2015.

### WHAT TIGTA FOUND

Overall, the amount of the IRS's Taxpayer Services appropriation increased \$198 million from FY 2013 to FY 2016. However, the amount of user fee receipts that the IRS used to supplement its annual Taxpayer Services appropriation was only about \$40 million of the total \$421 million user fee receipts in FY 2015. This \$40 million represents a 79 percent decrease since FY 2013. The IRS increased this amount to \$99.6 million in FY 2016. IRS management noted that they increased the amount of user fees used to supplement the annual Operations Support appropriation in FY 2015 because appropriated funds for Operations Support were reduced in the last

several fiscal years despite funding needs to implement legislative obligations.

The overall number of resources allocated by IRS executives to work taxpayer correspondence and provide telephone assistance steadily decreased from FY 2013 to FY 2015. During this period, the IRS also used a higher percentage of resources to work correspondence which contributed to a lower level of telephone assistance. For example, of the total full-time equivalents allocated, the percentage used to work correspondence increased from 47.6 percent in FY 2013 to 52.4 percent in FY 2015 which, in turn, resulted in fewer full-time equivalents available to answer telephones.

IRS officials stated that using employees to work correspondence and setting a sharply lower level of telephone assistance goal were to address the significant aging of taxpayer correspondence. However, TIGTA's analysis of correspondence inventory at the beginning of FY 2015 does not support the justification for using a higher percentage of staff to work correspondence.

IRS officials also stated that the lower level of telephone assistance in FY 2015 was due to the IRS operating for the first three months of FY 2015 under the assumption of a flat budget but ultimately received a budget cut in the budget enacted in December 2014. Lastly, IRS management stated that they allocated a higher percentage of assistants to working taxpayer correspondence to address an anticipated high volume of correspondence in FY 2015. However, the IRS acknowledged that this estimated high volume of correspondence was not received.

### WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in the report.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20220**

December 27, 2016

**MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION**

**FROM:**

Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Analysis of Resources Allocated to Taxpayer  
Services (Project # 2016N11.CR06)

This report presents the results of our review to analyze the budget allocation process for taxpayer services. This analysis was performed to address congressional inquiries regarding the Internal Revenue Services's allocation of resources to taxpayer services.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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***Analysis of Resources Allocated to Taxpayer Services***

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## ***Analysis of Resources Allocated to Taxpayer Services***

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### ***Abbreviations***

CARE	Customer Assistance, Relationships, and Education
CFO	Chief Financial Officer
FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
JOC	Joint Operations Center
TIGTA	Treasury Inspector General for Tax Administration



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## ***Analysis of Resources Allocated to Taxpayer Services***

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### **Background**

The Internal Revenue Service (IRS) is the largest bureau in the Department of the Treasury and has the primary responsibility for administering the Federal tax system. The IRS collects revenue to fund the Federal Government and administers the Nation's tax laws. The IRS's budget request supports the Department of the Treasury's strategic goal of fairly and effectively reforming and modernizing Federal financial management, accounting, and tax systems and the Treasury Priority Goal of increasing self-service and electronic service options for taxpayers. The IRS's strategic goals are to: 1) deliver high-quality, timely service to reduce taxpayer burden and encourage voluntary compliance and 2) effectively enforce the tax laws to ensure compliance with tax responsibilities and combat fraud. The IRS's budget has four appropriation accounts:

- **Business Systems Modernization**: funds provide for the planning and capital asset acquisition of information technology to modernize the IRS business systems.
- **Enforcement**: funds provide support for the IRS's examination and collection efforts.
- **Operations Support**: funds provide support for functions that are essential to the overall operation of the IRS, such as infrastructure and information services.
- **Taxpayer Services**: funds provide support for programs that focus on helping taxpayers understand and meet their tax obligations.

To accomplish its goals, the IRS requested \$12.9 billion in its Fiscal Year (FY)<sup>1</sup> 2016 budget request. This request was an increase of \$2 billion (18 percent) over its FY 2015 enacted budget of \$10.9 billion. Congress appropriated \$11.2 billion.<sup>2</sup> The IRS generally spends slightly less than the amount Congress appropriates.<sup>3</sup> The IRS does have carryover authority and is not required to spend all funds allocated each year.<sup>4</sup> In addition, some budget funds are considered two-year funds (Operations Support) and three-year funds (Business Systems Modernization), which means the funds can be used for specific programs or activities one or two years after congressional appropriation. Figure 1 provides a comparison of operating level budgets to actual expenditures by appropriation account.

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<sup>1</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins October 1 and ends September 30.

<sup>2</sup> The FY 2016 appropriation includes \$290 million under Section 113, as directed by Public Law 114-113, Division E, Section 113 of the Administrative Provisions – IRS.

<sup>3</sup> Unspent funds from a fiscal year are maintained for five years and then expire. These funds can be used to pay bills for work performed or goods purchased during that time that were obligated on the books but not yet paid.

<sup>4</sup> The specific caps for any multiyear carryover authority are contained in the enacted budget bill. In general, agencies must request Office of Management and Budget approval of carryover amounts.



## Analysis of Resources Allocated to Taxpayer Services

**Figure 1: Comparison of Allocated<sup>5</sup> and Expended Budgets  
FYs 2013 Through 2016 (Dollars in Thousands)**

Appropriation Account	FY 2013		FY 2014		FY 2015		FY 2016
	Allocated	Spent	Allocated	Spent	Allocated	Spent	Allocated
Enforcement	\$4,949,178	\$4,923,671	\$4,952,978	\$4,914,497	\$4,769,000	\$4,767,562	\$4,864,936
Operations Support	\$3,800,943	\$3,694,364	\$3,868,142	\$3,722,599	\$3,699,446	\$3,601,436	\$3,746,688
Taxpayer Services	\$2,135,553	\$2,119,859	\$2,156,554	\$2,145,195	\$2,186,554	\$2,173,684	\$2,333,376
Business Systems Modernization	\$312,938	\$198,205	\$312,938	\$145,235	\$290,000	\$107,746	\$290,000
<b>Total</b>	<b>\$11,198,612</b>	<b>\$10,936,099</b>	<b>\$11,290,612</b>	<b>\$10,927,526</b>	<b>\$10,945,000</b>	<b>\$10,650,428</b>	<b>\$11,235,000</b>

Source: Office of the Chief Financial Officer data.

Figure 2 provides a comparison of full-time equivalents (FTE)<sup>6</sup> allocated versus used for the appropriation accounts.

**Figure 2: Comparison of FTEs Allocated Versus Used for  
FYs 2013 Through 2016<sup>7</sup>**

Appropriation Account	FY 2013		FY 2014		FY 2015		FY 2016
	Allocated	Used	Allocated	Used	Allocated	Used	Allocated
Enforcement	44,325	44,174	42,805	42,119	40,564	39,708	38,840
Taxpayer Services	29,700	29,646	28,981	28,535	28,274	27,476	30,370
Operations Support	11,885	11,610	12,099	11,652	12,044	10,614	11,922
Business Systems Modernization	471	451	383	476	398	340	440
<b>Total</b>	<b>86,381</b>	<b>85,881</b>	<b>84,268</b>	<b>82,782</b>	<b>81,280</b>	<b>78,138</b>	<b>81,572</b>

Source: Office of the CFO data.

<sup>5</sup> Allocated includes amount enacted by Congress, user fees, and interagency transfers (transfer within the agency).

<sup>6</sup> A measure of labor hours. One FTE equals eight hours multiplied by the number of compensable days in a fiscal year. For FY 2015, one FTE was equal to 2,088 staff hours. For FY 2016, one FTE was equal to 2,096 staff hours.

<sup>7</sup> The total used figure for FY 2016 was not available. Therefore, it is not included in the table.



## ***Analysis of Resources Allocated to Taxpayer Services***

### **Congress appropriated additional funding in FY 2016 for the direct support of taxpayers**

Congress appropriated an additional \$290 million in FY 2016 for key areas that directly support taxpayers. The additional funding is the first significant increase to the IRS budget in six years. In its spending plan for these funds, the IRS informed Congress that \$178.4 million<sup>8</sup> would be used to increase telephone Level of Service.<sup>9</sup> The remainder would be used for cybersecurity activities (\$95.4 million) and identity theft prevention and refund fraud mitigation activities (\$16.1 million). Figure 3 provides a breakdown of the IRS’s funding for FY 2016.

***Figure 3: IRS Budgetary Funding for FY 2016 (in Thousands)***

<b>Appropriation Account</b>	<b>Original Allocation</b>	<b>Additional Funding<sup>10</sup></b>	<b>Total FY 2016 Allocation</b>
<b>Taxpayer Services</b>	\$2,156,554	\$176,822	\$2,333,376
<b>Enforcement</b>	\$4,860,000	\$4,936	\$4,864,936
<b>Operations Support</b>	\$3,638,446	\$108,242	\$3,746,688
<b>Business Systems Modernization</b>	\$290,000	\$0	\$290,000
<b>Total</b>	<b>\$10,945,000</b>	<b>\$290,000</b>	<b>\$11,235,000</b>

*Source: Office of the CFO data.*

### **Budget process**

The IRS creates its budget at three levels: 1) appropriation account, 2) budget activity, and 3) program activity. However, its budget is reported externally only at the appropriation account and budget activity levels. Funding requests by appropriation accounts align broadly with the IRS’s strategic goals, with the budget justification sent to Congress presenting funding and FTE information at the appropriation account and budget activity levels. In addition, the Congressional Justification<sup>11</sup> provides descriptions of program activities within each budget activity. Figure 4 provides the steps the IRS takes to create its budget submission.

<sup>8</sup> The \$178.4 million apportioned to improving telephone level of service included \$176.6 million to the Taxpayer Service appropriation and to the Operations Support appropriation.

<sup>9</sup> The Level of Service is the relative success rate of taxpayers who want to speak with an assistor and were able to reach one.

<sup>10</sup> Amounts are rounded.

<sup>11</sup> The Congressional Justification reflects the President’s Budget request and includes agency priorities, requested budget levels, and performance plans.



## ***Analysis of Resources Allocated to Taxpayer Services***

***Figure 4: Steps to Create the IRS Budget Submission***

<b>Step</b>	<b>Actions Taken</b>
1	In the fall of each year, the budget cycle starts with the issuance of guidance to the IRS Senior Executive Team, which is made up of 40 senior IRS executives. The guidance requests IRS business units to develop spending plans for the upcoming strategic planning and budgeting cycle.
2	In the following spring, the IRS receives the Department of the Treasury guidance on proposed funding levels. In addition, the Senior Executive Team prioritizes investments as high, medium, or low based on the future state and critical needs of the IRS. Examples of investments prioritized include implementing changes to tax credits or the Affordable Care Act, <sup>12</sup> leveraging new technologies to advance the IRS mission, and improving taxpayer service.
3	In April, the prioritized list of investments is used to develop and justify program increases for FTE cost, equipment, and contractual services for the Department of the Treasury budget submission.
4	In May, the CFO develops the budget submission that will be sent to the Department of the Treasury. This is developed along with input from the business units and is reviewed and approved by the IRS Commissioner, Deputy Commissioners for Operations Support and for Services and Enforcement, and the Senior Executive Team.
5	In June, the IRS's budget submission is sent to the Department of the Treasury.
6	In July, the IRS receives the Department of the Treasury's final determination of the funding levels that will go forward in its submission to the Office of Management and Budget.
7	In September, the Department of the Treasury forwards its budget submission, which includes the IRS's budget request, to the Office of Management and Budget.
8	In early December, the Office of Management and Budget determines funding levels for the Congressional Justification budget request.

*Source: Office of the CFO data.*

### **Supplementing annual appropriations with user fees**

The IRS has statutory authority to supplement its annual appropriations with user fee receipts received from various services provided to taxpayers.<sup>13</sup> For example, the IRS charges taxpayers

<sup>12</sup> Pub. L. No. 111-148, 124 Stat. 119 (2010).

<sup>13</sup> For FY 1995 and thereafter, the IRS was granted authority to retain new or increased user fee receipts to supplement its annual appropriation. Pub. L. No. 103-329, Title I, § 3, 108 Stat. 2382 (Sept. 30, 1994), as amended by Pub. L. No. 109-115, Div. A, Title II, § 209, 119 Stat. 2396 (Nov. 30, 2005).



## ***Analysis of Resources Allocated to Taxpayer Services***

a user fee when taxpayers do not have the funds necessary to fully pay their taxes and instead enter into an installment agreement with the IRS. The establishment of an installment agreement is considered a special service, and taxpayers are charged a fee to offset the IRS's cost of providing the service.

The amount of user fees used to supplement annual appropriations is not fixed by appropriation account or program activity. The IRS provides a 10-year user fee projection of anticipated collections to the Department of the Treasury. Because the IRS cannot spend user fee collections until they are earned, the collections in September (end of fiscal year budget cycle) are not available for use in the current fiscal year. Thus, the IRS's estimate of available earned user fees is used for developing a tentative user fee plan. The final amount is determined each year by IRS senior leadership as it prioritizes program activities. Figure 5 shows the amount that annual appropriations were supplemented by user fees for FYs 2013 through 2016.

***Figure 5: Amount of User Fees Used to Supplement Annual Appropriations for FYs 2013 Through 2016 (in Thousands)***

Appropriation	FY 2013	FY 2014	FY 2015	FY 2016 Planned <sup>14</sup>
<b>Operations Support</b>	\$150,256	\$214,842	\$373,593	\$395,662
<b>Taxpayer Services</b>	\$185,400	\$178,642	\$39,794	\$99,592
<b>Enforcement</b>	\$4,709	\$0	\$7,700	\$746
<b>Business Systems Modernization</b>	\$0	\$0	\$0	0
<b>Total</b>	<b>\$340,365</b>	<b>\$393,484</b>	<b>\$421,087</b>	<b>\$496,000</b>

Source: Office of the CFO data.

### **Taxpayer Services appropriation account budget activities**

The Taxpayer Services appropriation account has two budget activities. A budget activity is a subdivision of the appropriation used for externally reporting on IRS programs. The first budget activity is ***Pre-Filing Taxpayer Assistance and Education***. Under this activity, the IRS funds functional areas that support services to assist taxpayers with tax return preparation, including tax law interpretation, publication, production, and advocate services. Figure 6 provides an overview of some key program activities for the Pre-Filing Taxpayer Assistance and Education Budget Activity.

<sup>14</sup> FY 2016 planned user fee receipt supplement as of June 3, 2016.



## ***Analysis of Resources Allocated to Taxpayer Services***

**Figure 6: Pre-Filing Taxpayer Assistance and Education Program Activities**

<b>Program Activity</b>	<b>Description</b>
<b>Wage and Investment Division Headquarters Management and Administration</b>	Provides staffing, training, and direct support for Wage and Investment Division management activities of strategic planning, communications, and liaison; finance; human resources; equity, diversity, and inclusion; business modernization; and embedded training.
<b>Pre-Filing Services Management – Customer Assistance, Relationships and Education (CARE) Organization</b>	Supports IRS headquarters management associated with the CARE organization. This organization provides pre-filing assistance and education to taxpayers.
<b>Taxpayer Communication and Education Function</b>	Researches customer needs; develops and manages educational programs, establishes partnerships with stakeholders, and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, and advertising.
<b>Media and Publications Function</b>	Develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
<b>Taxpayer Advocacy</b>	Provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and procedural remedies.
<b>Account Management and Assistance – Field Assistance Function</b>	Provides face-to-face assistance, education, and compliance services to taxpayers. It includes answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers.

*Source: FY 2015 Budget Request – Congressional Budget Submission.*

The second budget activity is ***Filing and Account Services***. Under this activity, the IRS funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. Figure 7 provides an overview of some key program activities for the Filing and Account Services budget activity.



## ***Analysis of Resources Allocated to Taxpayer Services***

***Figure 7: Filing and Account Services Program Activities***

<b>Program Activity</b>	<b>Description</b>
<b>Filing and Account Services Management</b>	This organization supports taxpayer filing and account services programs.
<b>Submission Processing Function</b>	Processes tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
<b>Account Management and Assistance – Electronic/ Correspondence Assistance</b>	Provides education and assistance to taxpayers, and resolves account and notice inquiries through telephone, paper, and Internet correspondence.
<b>Electronic Products and Services Support Function</b>	Provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
<b>Prerefund Program</b>	Provides coordination support for the prerefund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
<b>Joint Operations Center (JOC)</b>	Provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real-time monitoring and routing of inbound calls; monitoring of customer service representative accuracy; and management of the enterprise telephone database.

*Source: FY 2015 Budget Request – Congressional Budget Submission.*

### **Restrictions on reallocating funds**

Appropriation laws set limitations on an agency’s ability to reallocate funds between appropriation accounts. In addition, appropriations approved by Congress are intended to provide a mandated framework to support agency activities. Within this framework, agencies may reprogram funds among appropriation accounts and budget activities without requesting statutory authority if the reprogramming will, among other things, augment existing programs, projects, or budget activities by no more than \$5 million or 10 percent, whichever is less.

The overall objective of our analysis was to review the Customer Service resource allocation process. Our analyses were performed in the Wage and Investment Division’s office in Atlanta, Georgia, during the period January through May 2016. We also interviewed officials in the CFO’s organization and used nationwide data from the IRS management information system. We did not audit IRS systems to validate the accuracy and reliability of data processed in the systems. Our analyses were limited to the allocation of resources to taxpayer service. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## ***Analysis of Resources Allocated to Taxpayer Services***

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### **Results of Review**

Overall, the amount of the IRS's Taxpayer Services appropriation increased almost \$198 million<sup>15</sup> from FY 2013 to FY 2016. However, the amount of user fee receipts the IRS used to supplement its annual Taxpayer Services appropriation was only about \$40 million of the total \$421 million user fee receipts in FY 2015. This amount is a 79 percent decrease in the amount to the annual Taxpayer Services appropriation since FY 2013. It should be noted that the IRS did increase this amount to \$99.6 million for FY 2016. IRS management noted that they increased the amount of user fees supplementing the annual Operations Support appropriation in FY 2015 because Operations Support's appropriated funds were reduced in the last several fiscal years despite funding needs to implement legislative obligations.

Our review also identified that the overall number of FTEs allocated by IRS executives to the Accounts Management function to work taxpayer correspondence and provide telephone assistance steadily decreased from FY 2013 to FY 2015. The overall number of FTEs allocated to the Accounts Management function decreased by about 11 percent (14,757 to 13,157 FTEs) between FYs 2013 and 2015. Accounts Management function officials stated that operating decisions during the first three months of FY 2015 assumed a flat budget. However, once the final budget was received in December 2014, IRS executives cut a significant number of FTEs allocated to working taxpayer correspondence and providing telephone assistance. Accounts Management function officials planned for 14,776 FTEs to work correspondence inventory and answer telephones but only received funding for 13,200 FTEs. As such, projections for the remainder of the fiscal year needed to be adjusted to account for this reduction and the FTEs expended during the first three months of the fiscal year. For example, on January 1, 2015, the IRS reduced overtime for assistors until after the filing season.

Finally, of the reduced FTEs allocated to the Accounts Management function, the IRS continued to allocate a higher percentage of these FTEs to working correspondence than answering the telephones, which resulted in a lower telephone Level of Service. For example, the IRS emphasized the working of correspondence at the start of the 2015 Filing Season<sup>16</sup> rather than answering telephone calls to reduce the long-term impact on correspondence inventory. Accounts Management function officials stated that they planned for a higher volume of correspondence receipts in FY 2015, but actual receipts did not match their projections. An additional reason for moving employees from answering telephones to working paper correspondence and setting a sharply lower Level of Service goal for telephone assistance was to prevent the significant aging of taxpayer correspondence. However, our analysis of

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<sup>15</sup> Amounts are rounded.

<sup>16</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.



## ***Analysis of Resources Allocated to Taxpayer Services***

correspondence<sup>17</sup> inventory at the beginning of FY 2015 does not support the IRS’s reason for using a higher percentage of FTEs to work correspondence.

### **Taxpayer Services Appropriation Increased**

The Taxpayer Services appropriation increased by almost \$198 million (9 percent) from FY 2013 to FY 2016.<sup>18</sup> This increase includes the additional \$178.4 million in funding that Congress provided the IRS to improve its telephone Level of Service. Figure 8 provides the allocated budget amount and actual expenditures for the Taxpayer Services appropriation’s two budget activities.

***Figure 8: Allocated Budget for the Taxpayer Services’ Budget Activities for FYs 2013 Through 2016 (Dollars in Thousands)***

Budget Activity	FY 2013		FY 2014		FY 2015		FY 2016
	Allocated	Spent	Allocated	Spent	Allocated	Spent	Allocated
<b>Pre-Filing Taxpayer Assistance and Education</b>	\$600,840	\$586,896	\$605,515	\$595,168	\$621,516	\$609,196	\$625,338
<b>Filing and Account Services</b>	\$1,534,713	\$1,532,963	\$1,551,039	\$1,550,027	\$1,565,038	\$1,564,488	\$1,708,038
<b>Total</b>	<b>\$2,135,553</b>	<b>\$2,119,859</b>	<b>\$2,156,554</b>	<b>\$2,145,195</b>	<b>\$2,186,554</b>	<b>\$2,173,684</b>	<b>\$2,333,376</b>

*Source: Office of the CFO data.*

In addition, the FTEs allocated to Taxpayer Services increased by 670 (2 percent) from FY 2013 to FY 2016. However, it should be noted that between FY 2013 and 2015, there was a continual reduction in FTEs with an overall 5 percent decrease during this period. Figure 9 provides allocated FTEs and actual FTEs expended for Taxpayer Services’ budget activities.

<sup>17</sup> We analyzed the correspondence types in which the taxpayer was expecting a response from the IRS.

<sup>18</sup> Increase does not include cost of living.



## ***Analysis of Resources Allocated to Taxpayer Services***

**Figure 9: Allocated FTEs for the Taxpayer Services Appropriation’s Budget Activities for FYs 2013 Through 2016**

Budget Activity	FY 2013		FY 2014		FY 2015		FY 2016
	Allocated	Actual	Allocated	Actual	Allocated	Actual	Allocated
Pre-Filing Taxpayer Assistance and Education	5,610	5,474	5,482	5,219	5,373	5,349	5,499
Filing and Account Services	24,090	24,172	23,499	23,316	22,901	22,127	24,871
<b>Total</b>	<b>29,700</b>	<b>29,646</b>	<b>28,981</b>	<b>28,535</b>	<b>28,274</b>	<b>27,476</b>	<b>30,370</b>

Source: Office of the CFO data.

### **The Amount of User Fees Used to Supplement Taxpayer Services Annual Appropriation Significantly Decreased in Fiscal Year 2015**

Our review identified that the amount of user fees the IRS used to supplement its annual Taxpayer Services appropriation was only about \$40 million of the total \$421 million in FY 2015. This amount is a 79 percent decrease to the Taxpayer Services appropriation since FY 2013. Figure 10 provides the amount of user fees that were used to supplement the annual Taxpayer Services appropriation by budget activity.

**Figure 10: Amount of User Fees Used to Supplement Taxpayer Services Budget Activities for FYs 2013 Through 2015 (in Thousands)**

Budget Activity	FY 2013	FY 2014	FY 2015	FY 2016 Planned <sup>19</sup>
Pre-Filing Taxpayer Assistance and Education	\$6,400	\$22,400	\$4,141	\$7,135
Filing and Account Services	\$179,000	\$156,242	\$35,653	\$92,457
<b>Total</b>	<b>\$185,400</b>	<b>\$178,642</b>	<b>\$39,794</b>	<b>\$99,592</b>

Source: Office of the CFO data.

IRS officials stated that the reason for the decrease in the amount of user fee receipts supplementing the Taxpayer Services annual appropriation in FY 2015 was that the Operations Support appropriation continued to be reduced despite funding needs to implement legislative obligations. For example, from FY 2013 to FY 2015, the Operations Support appropriation was

<sup>19</sup> FY 2016 planned distribution as of June 3, 2016.



## ***Analysis of Resources Allocated to Taxpayer Services***

reduced by about \$102 million. The implementation of these laws requires the use of funding from the Operations Support appropriation. Figure 11 shows the changes in the enacted budget for the Operations Support appropriation for FYs 2012<sup>20</sup> through 2016.

***Figure 11: Changes in Enacted Budgets for the Operations Support Appropriation for FYs 2012 Through 2016 (Dollars in Thousands)***

FY	Enacted Budget	Dollar Change From Prior Year	Percentage Reduction From Prior Year
<b>2012</b>	\$3,947,416	\$(128,300)	3.1% ↓
<b>2013</b>	\$3,740,943	\$(206,473)	5.2% ↓
<b>2014</b>	\$3,740,942	\$(1)	<1% ↓
<b>2015</b>	\$3,638,446	\$(102,496)	2.7% ↓
<b>2016</b>	\$3,638,446	\$0	0

*Source: Office of the CFO.*

Figure 12 provides examples of some of the legislative requirements that the IRS was required to implement and administer. Each of these requires funding over several years to implement; however, the IRS did not receive additional funding to implement them.

***Figure 12: Overview of Legislative Requirements***

Legislation	Legislative Citation	Date Enacted	Description
<b>Affordable Care Act</b>	Patient Protection and Affordable Care Act (Pub. L. No. 111-148, 124 Stat. 119 (2010))	March 23, 2010	<ul style="list-style-type: none"> <li>• More than 40 Affordable Care Act provisions added to or amended the Internal Revenue Code.</li> <li>• Implementation of these provisions requires numerous actions, including revising or developing new forms, publications, and instructions; creating new computer programs; training IRS employees; revising internal guidance documents; issuing revenue procedures and regulations; and providing outreach to taxpayers and tax professionals.</li> </ul>

<sup>20</sup> FY 2012 shown in order to calculate dollar change from prior year for FY 2013.



## ***Analysis of Resources Allocated to Taxpayer Services***

<b>Legislation</b>	<b>Legislative Citation</b>	<b>Date Enacted</b>	<b>Description</b>
<b>Foreign Account Tax Compliance Act</b>	Hiring Incentives to Restore Employment Act (Pub. L. No. 111-147, 124 Stat. 97 (2010))	March 18, 2010	<ul style="list-style-type: none"> <li>• Targets tax noncompliance by U.S. taxpayers using foreign accounts.</li> <li>• Implementation requires amending how forms are processed and programming changes to systems.</li> </ul>
<b>Health Coverage Tax Credit</b>	Trade Preferences Extension Act of 2015 (Pub. L. No. 114-027, 129 Stat. 381)	June 29, 2015	<ul style="list-style-type: none"> <li>• The Health Coverage Tax Credit, which expired at the start of 2014, can now be claimed through 2019.</li> <li>• Implementation requires revising forms, publications, and instructions and updating systems.</li> </ul>

*Source: Legislative Analysis Tracking Implementation Services and the Congress.gov website.*

Management stated that because of the reductions to the Operations Support account and the need to implement legislative requirements, the IRS faced a situation in which the infrastructure necessary to maintain the integrity of core operations, including filing season requirements, was at risk. Thus, IRS management made the decision to use more FY 2015 user fee funds to supplement the annual Operations Support appropriation and less for Taxpayer Services.

### **User fees can be used to help meet telephone Level of Service goals**

Each year, the CFO coordinates with IRS business units to develop a user fee distribution plan. The plan is reviewed and approved by senior management. For example, for the Wage and Investment Division, the proposed plan is developed by the Wage and Investment Division Commissioner and Deputy Commissioners and sent to the CFO. The user fees available for each functional area is based on the total user fees revenue available along with consideration of the other unfunded legislative mandates previously mentioned. The user fees are also used to help the IRS achieve its established Level of Service goal for each year.

Once the user fee plan is developed, the CFO then coordinates sending the proposed user fee plan to IRS executives for review and approval. The Commissioner, along with the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement, finalize the user fee plan. It should be noted that the user fee plan also requires Department of the Treasury and Office of Management and Budget approval.

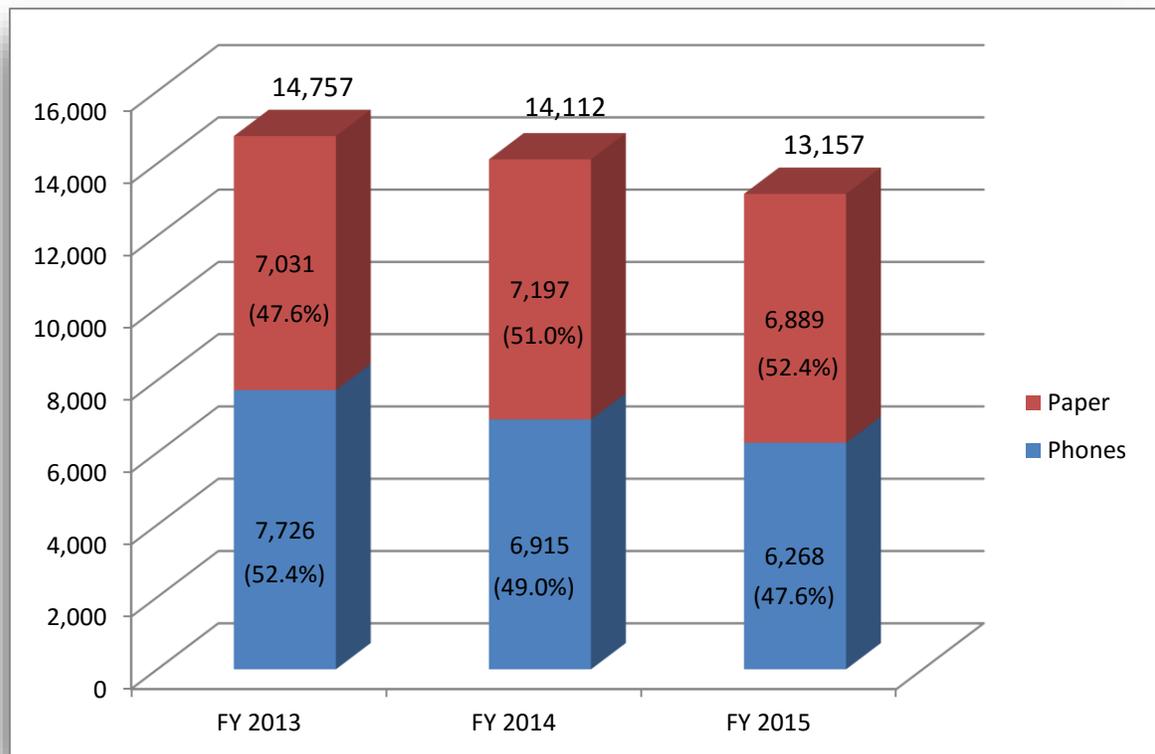


## Analysis of Resources Allocated to Taxpayer Services

### Continual Reductions Were Made in the Number of Staff That Works Taxpayer Correspondence and Provides Telephone Assistance

Our review identified that the overall number of FTEs allocated by IRS executives to answer telephones and work taxpayer correspondence decreased by approximately 11 percent (14,757 to 13,157 FTEs) between FYs 2013 and 2015. Of the total FTEs allocated to the Accounts Management function, the percentage used for working correspondence increased from 47.6 percent in FY 2013 to 52.4 percent in FY 2015 which, in turn, resulted in fewer FTEs available to answer telephones. IRS officials stated that, assuming the budget would be restored in FY 2016, they decided to reduce the long-term impact to correspondence inventory by placing more emphasis on working correspondence. Figure 13 provides the FTEs expended answering telephones and working correspondence from FYs 2013 through 2015.

**Figure 13: Accounts Management Function FTEs Expended Answering Telephones and Working Correspondence in FYs 2013 Through 2015**



Source: Work Planning and Control data provided by the Wage and Investment Division.



## ***Analysis of Resources Allocated to Taxpayer Services***

### **Overtime was significantly reduced during the 2015 Filing Season**

On January 1, 2015, the IRS significantly reduced overtime for assistors until after the filing season, resulting in fewer hours worked by assistors to answer telephones and work correspondence during the period when most taxpayers seek assistance. IRS management indicated that once the final budget for FY 2015 was received, overtime was reduced in response to the significant reduction in the Accounts Management function budget. Figure 14 shows the overtime expended for the 2013 through 2016 Filing Seasons.

***Figure 14: Overtime Expended for Filing Seasons 2013 Through 2016 (Dollars in Thousands)***

Filing Season	Overtime	
	Hours	Dollars
2013	387,879	\$13,016,446
2014	262,140	\$9,208,876
2015	85.6	\$3,685
2016	654,077	\$23,353,760

*Source: Integrated Financial System data.*

### **Increased allocation of available FTEs to work correspondence contributed to a lower telephone Level of Service**

Customer service representatives in the Accounts Management function respond to taxpayer correspondence and provide telephone assistance. IRS management can allocate its resources among these services throughout the year based on identified trends, taxpayer needs, and other management data. However, using more FTEs to work correspondence than answering telephones can contribute to a lower telephone Level of Service. In January 2015, the IRS set a 38 percent telephone Level of Service goal after receiving a reduced funding allocation for FY 2015. Although the IRS received a reduced overall budget in FY 2015 (Figure 1), the amount appropriated and spent on taxpayer services increased (Figure 8).

The Level of Service set for FY 2015 is a 32 percentage point reduction when compared to the Level of Service set for FY 2013 and a 23 percentage point reduction compared to the Level of Service set for FY 2014. IRS management indicated that the 38 percent Level of Service goal for FY 2015 was set by the Accounts Management function and the JOC based on management decisions and factors that included:

- Allocating a higher percentage of Accounts Management function FTEs than previously allocated to work taxpayer correspondence and address the anticipated high volume of FY 2015 correspondence, as well as overaged unresolved correspondence.



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## ***Analysis of Resources Allocated to Taxpayer Services***

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- Using prior year correspondence receipt patterns and closures, per FTE, to determine the number of FTEs that would be required to work projected correspondence receipts in FY 2015.

The Accounts Management function's goal for its FY 2015 ending inventory was to remain about the same as in FY 2014 (about 900,000). The Accounts Management function estimated this would require 6,892 FTEs of the total 13,200<sup>21</sup> FTEs allocated to answer calls and work correspondence to achieve this ending inventory goal. The remaining 5,245 FTEs were then provided to telephone assistance. The JOC calculated the estimated Level of Service figure of 38 percent using the 5,245 FTEs along with historical trends, such as telephone demand<sup>22</sup> and Average Handle Time.<sup>23</sup>

### ***FY 2015 correspondence inventory levels do not support the decision to allocate more FTEs to work correspondence***

Our analysis of correspondence inventory at the beginning of FY 2015 does not support the IRS's justification for using a higher percentage of its FTE to work correspondence to address a significant aging of taxpayer correspondence. In fact, our review of correspondence inventory statistics at the beginning of FY 2015 showed improvements in the management of correspondence. Examples include:

- Correspondence receipts in FY 2014 increased 9 percent over FY 2013 but closures increased more (15 percent) during this period.
- The FY 2014 ending correspondence inventory was 8 percent less than the end of FY 2013.
- The percentage of overage correspondence decreased 11 percent from FY 2013 to FY 2014.

Figure 15 shows the taxpayer correspondence trends for FYs 2013 through 2015.

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<sup>21</sup> The Accounts Management function estimated that 1,063 FTEs would be expended on the Accounts Management function's Director's staff. (6,892 + 5,245 + 1,063 = 13,200)

<sup>22</sup> Demand is the overall count of callers seeking live assistance from assistors and is calculated by adding calls offered to an assistor queue and disconnected calls.

<sup>23</sup> Handle time includes time assistors take to answer taxpayers' questions. It consists of the hold time, talk time, and time the assistor spends taking actions to complete a call after the taxpayer hangs-up (wrap time).



## *Analysis of Resources Allocated to Taxpayer Services*

**Figure 15: Taxpayer Correspondence Inventory Trends  
for FYs 2013 Through 2015**

Component	End of FY 2013	End of FY 2014	Change FY 2013 to FY 2014	End of FY 2015	Change FY 2014 to FY 2015
<b>Receipts</b>	7,852,629	8,559,598	9%	7,310,776	-15%
<b>Closures</b>	7,528,477	8,637,152	15%	7,352,303	-15%
<b>Ending Inventory</b>	978,078	900,524	-8%	858,997	-5%
<b>Over-Age Volume</b>	574,306	472,111	-18%	413,463	-12%
<b>Over-Age Percentage</b>	58.72%	52.43%	-11%	48.13%	-8%
<b>FTE Used to Work Correspondence</b>	7,031	7,197	2%	6,889	-4%

*Source: Accounts Management Information Reports from the JOC website and Work Planning and Control data provided by the Wage and Investment Division.*

Accounts Management function officials stated that their goals for working correspondence inventory in FY 2015 included:

- Closing FY 2015 correspondence receipts with an ending inventory volume the same as at the start of the fiscal year.
- Reducing correspondence receipts by emphasizing the need to timely respond to taxpayer correspondence.

These goals were exceeded as the ending FY 2015 inventory was 858,997, which is 5 percent lower than the 900,524 in inventory at the start of the fiscal year. In addition, Accounts Management function officials stated that the IRS did not receive the high volume of correspondence receipts anticipated for FY 2015. Figure 15 supports this statement. In fact, FY 2015 receipts were down 15 percent from FY 2014. Therefore, the IRS did not need to use a higher percentage of employees to work correspondence rather than answering telephones.

In response to the above analysis, Accounts Management function officials noted that operating decisions for the first three months of FY 2015 assumed a flat budget. However, once the final budget was received in December 2014, IRS executives cut a significant number of FTEs allocated to work taxpayer correspondence and provide telephone assistance. As such, projections for the remainder of the fiscal year needed to be adjusted to account for this reduction along with the FTEs expended during the first three months of the fiscal year.



## ***Analysis of Resources Allocated to Taxpayer Services***

### **Reduced funding allocation and emphasis on working correspondence contributed to a lower telephone Level of Service**

The IRS's reduced funding allocation in FY 2015 and emphasis on working correspondence contributed to the 38.1 percent Level of Service in FY 2015. Figure 16 illustrates the actual Level of Service, calls answered per FTE answering telephones, and average caller wait time in FYs 2013 through 2015. Management indicated that the number of calls answered per FTE has decreased because in FY 2014, the IRS began directing taxpayers to IRS.gov for refund inquiries and transcript requests. Assistors resolved these calls faster than other calls. Consequently, the remaining callers' questions were more complex and required more time.

***Figure 16: Telephone Level of Service, Calls Answered Per FTE, and Average Speed of Answer for FYs 2013 Through 2015***

<b>Indicator</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Assistor Calls Answered Per FTE</b>	3,899	3,342	2,910
<b>Average Speed of Answer (seconds)</b>	1,058	1,173	1,828
<b>Level of Service</b>	60.5%	64.4%	38.1%

*Source: Accounts Management Information Reports from the JOC website and Treasury Inspector General for Tax Administration (TIGTA) analysis.*

IRS management noted that they monitor the FTEs applied to working correspondence and answering telephones and can adjust these allocations to help meet its Level of Service goal as information becomes available during the fiscal year. For example, in January 2015, the IRS initially estimated it would apply 5,160 FTEs to the telephones in FY 2015 and then increased its estimate to 5,245 in February 2015 as updated telephone and paper inventory information became available. Ultimately, as the result of the higher-than-planned telephone demand and a significantly higher number of disconnected calls,<sup>24</sup> which affect the Level of Service, the actual number of FTEs used was 6,268 by the end of FY 2015. Thus, the IRS used 1,108 (21 percent) more FTEs answering the telephones than the number initially planned. The additional allocation of FTEs to the telephones was needed to meet the IRS's planned Level of Service of 38 percent. FTEs were used on the telephones during the following time frames:

- 1,435 (22.9 percent) during October – December 2014.
- 3,590 (57.3 percent) during January – June 2015.

<sup>24</sup> The IRS blocks calls from entering the telephone queue when the queue backs up beyond a defined threshold, *i.e.*, the taxpayer receives a recorded announcement to call back at a later time. The IRS refers to these blocked calls as disconnects.



## ***Analysis of Resources Allocated to Taxpayer Services***

- 1,243 (19.8 percent) during July – September 2015.

The Level of Service is also affected by increasing or decreasing the number of blocked calls, thus allowing more or fewer callers in the queue. When demand exceeds available system capacity, callers receive a busy signal and their call is not allowed in the queue. Blocked calls increased more than five times in FY 2015 compared to FY 2014 (18.9 million versus 3.3 million).

Figure 17 shows that from FY 2013 to FY 2015, the Average Handle Time increased by 13 percent, which indicates that customer service representatives spent more time on average assisting each taxpayer. Moreover, the IRS considers Average Handle Time when developing its plans but when it calculates the actual Level of Service measure, Average Handle Time is not one of the components. During this same three-year period, the FTEs expended on the telephones decreased by 19 percent and calls answered by assistors decreased by 40 percent. This means fewer taxpayers who called the IRS for assistance were able to speak with an assistor. Calls answered per FTE in FY 2015 decreased by 25 percent. Figure 17 provides telephone assistance trends for FYs 2013 through 2015.

***Figure 17: Telephone Assistance Trends for FYs 2013 Through 2015***

<b>Component</b>	<b>FY</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>FTEs Used on the Telephones</b>	7,726	6,915	6,268
<b>Total Call Attempts (in millions)</b>	154.8	127.7	143.6
<b>Telephone Demand for Assistors (in millions)</b>	54.2	39.9	51.1
<b>Assistor Calls Answered (in millions)</b>	30.1	23.1	18.2
<b>Blocked Calls (in millions)</b>	6.6	3.3	18.9
<b>Average Handle Time (seconds)</b>	710	751	802
<b>Average Speed of Answer (seconds)</b>	1,058	1,173	1,828
<b>Level of Service</b>	61%	64%	38%
<b>FTEs Used to Work Correspondence</b>	7,031	7,197	6,889
<b>Correspondence Receipts (in millions)</b>	7.8	8.6	7.3

*Source: Wage and Investment Division, Accounts Management Information Reports and Snapshot Reports from the JOC website, and TIGTA analysis.*



## ***Analysis of Resources Allocated to Taxpayer Services***

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Finally, additional funding provided in FY 2016, and an increased amount of user fees supplementing the annual Taxpayer Services appropriation, allowed the IRS to set a telephone Level of Service goal of 47 percent for FY 2016, including a 65 percent Level of Service for the filing season. The IRS reported that for the 2016 Filing Season it achieved a Level of Service of 72.1 percent. In FY 2017, we will conduct a review of the IRS toll-free telephone Level of Service performance measure to determine if it provides a sufficient assessment of taxpayer service.



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## ***Analysis of Resources Allocated to Taxpayer Services***

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

Our overall objective was to analyze the budget allocation process for taxpayer services. This analysis was performed to address congressional inquiries regarding the IRS's allocation of funding to taxpayer services. To accomplish our objective, we:

- I. Interviewed Wage and Investment Division and CFO personnel to determine the IRS's budget process.
- II. Determined the allocated and expended budgets and FTEs for the four IRS appropriation accounts for FYs 2013 through 2016.
  - A. Requested budget and FTE data and compared the allocated and expended figures.
  - B. Determined the budget and program activities for the Taxpayer Services appropriation account.
  - C. Analyzed the steps that the IRS follows to create its budget submission to the Department of the Treasury.
- III. Determined the amount of user fees used to supplement the four appropriation accounts for FYs 2013 through 2016.
  - A. Analyzed the user fees used to supplement the four IRS appropriation accounts.
  - B. Analyzed user fees used to supplement the Taxpayer Services appropriation's two budget activities for FYs 2013 through 2015.
- IV. Analyzed changes in enacted budgets for the Operations Support appropriation for FYs 2010 through 2016.
- V. Analyzed the legislative provisions that the IRS was required to implement and that required funding from the Operations Support appropriation.
- VI. Analyzed the number of FTEs allocated by IRS executives to answer telephones and work taxpayer correspondence in FYs 2013 through 2015.
  - A. Identified the amount of overtime expended for assistants to work during the 2013 through 2016 Filing Seasons.
  - B. Calculated changes in the Level of Service for FYs 2013 through 2015.
- VII. Analyzed correspondence inventory levels and trends for correspondence types in which taxpayers were expecting a response.



## ***Analysis of Resources Allocated to Taxpayer Services***

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- A. Analyzed correspondence inventory receipts, closures, and overage inventory for FYs 2013 through 2015.
- B. Analyzed FTEs used to work correspondence for FYs 2013 through 2015.
- VIII. Assessed the IRS's justification for setting a 38 percent Level of Service in FY 2015.
  - A. Analyzed telephone assistance trends for FYs 2013 through 2015.
  - B. Determined reasons why the Level of Service was low in FY 2015.

### **Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. Our analyses were limited to the allocation of resources to taxpayer service.



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***Analysis of Resources Allocated to Taxpayer Services***

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**Appendix II**

**Major Contributors to This Report**

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)

Allen Gray, Director

Paula W. Johnson, Audit Manager

Tanya Boone, Lead Auditor

Audrey Graper, Auditor

Ann Ring, Auditor



***Analysis of Resources Allocated to Taxpayer Services***

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**Appendix III**

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support  
Deputy Commissioner for Services and Enforcement  
Deputy Chief Financial Officer  
Director, Customer Account Services, Wage and Investment Division  
Director, Accounts Management, Wage and Investment Division  
Director, Joint Operations Center, Wage and Investment Division  
Director, Finance  
Director, Office of Audit Coordination



**Analysis of Resources Allocated to Taxpayer Services**

**Appendix IV**

**Program Activity Budget and Full-Time Equivalent Comparison**

The IRS increased funding for some program activities in FY 2015 and decreased funding for others. Figure 1 provides a comparison of budgeted and spent funding for Taxpayer Services program activities in the IRS Wage and Investment Division for FYs 2013 through 2015.

**Figure 1: Budget for Taxpayer Services Program Activities Versus Amount Expended for FYs 2013 Through 2015 (Dollars in Thousands)**

Program Activity	FY 2013		FY 2014		FY 2015	
	Budget	Expended	Budget	Expended	Budget	Expended
<b>Pre-Filing Taxpayer Assistance and Education</b>						
1A. Pre-Filing Services Management (CARE)	\$1,988	\$1,983	\$1,922	\$1,919	\$2,018	\$1,975
1C. Taxpayer Communication and Education	\$65,661	\$65,513	\$65,565	\$65,102	\$63,996	\$63,894
1C. Multiyear Funds <sup>1</sup>	\$18,772	\$7,400	\$16,272	\$16,272	\$19,100	\$8,100
1D. Media and Publications	\$64,055	\$63,993	\$65,067	\$65,037	\$69,106	\$68,878
1D. Reimbursables <sup>2</sup>	\$1	\$1	\$20	\$20	\$51	\$51
1K. Accounts Management and Assistance – Field Assistance	\$155,676	\$155,570	\$147,906	\$147,778	\$165,828	\$165,270
1K. 50% Carryover Funds <sup>3</sup>	\$1,375	\$1,375	\$0	\$0	\$0	\$0
1K. User Fees	\$9,000	\$6,400	\$22,400	\$22,400	\$4,141	\$4,141
1Q. Headquarters Management and Administration	\$50,875	\$49,545	\$54,292	\$53,104	\$50,590	\$50,073
1Q. Reimbursables	\$0	\$0	\$26	\$26	\$0	\$0

<sup>1</sup> Multiyear funds are appropriated to cover multiple fiscal years.

<sup>2</sup> Reimbursables are funds received under agreements with other agencies that reimburse the IRS for work.

<sup>3</sup> The 50% Carryover Funds are prior year lapsed funds approved by Congress for spending in the current budget year pursuant to Public Law 113-235, Division E, Section 609.



## Analysis of Resources Allocated to Taxpayer Services

Program Activity	FY 2013		FY 2014		FY 2015	
	Budget	Expended	Budget	Expended	Budget	Expended
<b>Filing and Account Services</b>						
2A. Filing and Account Services Management	\$2,762	\$2,722	\$3,832	\$3,011	\$4,277	\$4,260
2B. Submission Processing	\$527,819	\$527,040	\$539,435	\$539,232	\$524,063	\$523,990
2B. Reimbursables	\$3,872	\$3,872	\$224	\$224	\$3,272	\$3,272
2B. User Fees	\$5,599	\$5,599	\$4,100	\$4,100	\$4,900	\$4,900
2B. 50% Carryover Funds	\$0	\$0	\$0	\$0	\$2,700	\$2,700
2C. Accounts Management and Assistance	\$908,023	\$907,457	\$881,717	\$881,410	\$952,513	\$952,375
2C. Reimbursables	\$33,663	\$33,663	\$28,331	\$28,331	\$26,611	\$26,611
2C. 50% Carryover Funds	\$8,807	\$8,807	\$0	\$0	\$4,503	\$4,503
2C. User Fees	\$179,000	\$179,000	\$156,243	\$156,242	\$35,653	\$35,653
Additional Funding Health Insurance Reform Implementation Fund <sup>4</sup>	\$0	\$0	\$0	\$0	\$20,000	\$20,000
Taxpayer Service Supplemental Funding <sup>5</sup>	\$0	\$0	\$34,000	\$34,000	\$0	\$0
2E. Electronic Products and Services Support	\$22,003	\$22,002	\$23,314	\$23,236	\$21,998	\$21,987
2G. Prerefund Program	\$8,484	\$8,454	\$4,025	\$3,921	\$4,814	\$4,799
2H. Health Care Tax Administration	\$14,671	\$14,659	\$13,782	\$13,753	\$0	\$0
2J. JOC	\$26,635	\$26,623	\$26,413	\$26,337	\$26,788	\$26,784
<b>Total</b>	<b>\$2,108,741</b>	<b>\$2,091,678</b>	<b>\$2,088,886</b>	<b>\$2,085,455</b>	<b>\$2,006,922</b>	<b>\$1,994,216</b>

Source: Wage and Investment Division data. All sources shown including non-appropriated funds such as Reimbursables and User Fees.

<sup>4</sup> Funds received from the U.S. Department of Health and Human Services for implementation of the Health Insurance Reform Implementation Fund.

<sup>5</sup> Supplemental Funding is funding approved by Congress above the core budget.



## Analysis of Resources Allocated to Taxpayer Services

Figure 2 provides a comparison of budgeted and expended FTEs for Taxpayer Services program activities for FYs 2013 through 2015.

**Figure 2: Budgeted FTEs for Taxpayer Services Program Activities Versus Expended FTEs for FYs 2013 Through 2015**

Program Activity by Budget Activity	FY 2013		FY 2014		FY 2015	
	Budget	Expended	Budget	Expended	Budget	Expended
<b>Pre-Filing Taxpayer Assistance and Education</b>						
1A. Pre-Filing Services Management (CARE)	14	14	13	13	12	13
1C. Taxpayer Communication and Education	510	503	478	476	450	445
1C. Multiyear Funds	0	0	0	0	0	0
1D. Media and Publications	554	552	543	542	590	553
1D. Reimbursables	0	0	0	0	0	0
1K. Accounts Management and Assistance – Field Assistance	1,885	1,875	1,899	1,698	1,876	1,867
1K. 50% Carryover Funds	17	17	0	0	0	0
1K. User Fees	0	0	230	230	0	0
1Q. Headquarters Management and Administration	361	359	391	374	345	345
1Q. Reimbursables	0	0	0	0	0	0
<b>Filing and Account Services</b>						
2A. Filing and Account Services Management	19	19	52	20	126	29
2B. Submission Processing	8,829	8,820	8,851	8,800	8,390	8,294
2B. Reimbursables	78	73	5	5	60	54
2B. User Fees	83	83	83	58	112	71
2B. 50% Carryover Funds	0	0	0	0	50	50
2C. Accounts Management and Assistance	14,741	14,743	13,715	13,454	13,287	13,259
2C. Reimbursables	530	521	440	439	409	409



## ***Analysis of Resources Allocated to Taxpayer Services***

Program Activity by Budget Activity	FY 2013		FY 2014		FY 2015	
	Budget	Expended	Budget	Expended	Budget	Expended
2C. 50% Carryover Funds	149	149	0	0	60	60
2C. User Fees	475	475	598	598	0	0
Additional Funding Health Insurance Reform Implementation Fund	0	0	0	0	287	287
Taxpayer Service Supplemental Funding	0	0	481	481	0	0
2E. Electronic Products and Services Support	277	278	316	278	275	255
2G. Prerefund Program	42	42	28	28	34	34
2H. Health Care Tax Administration	10	10	8	8	0	0
2J. JOC	160	160	168	162	163	162
<b>Total</b>	<b>28,734</b>	<b>28,693</b>	<b>28,299</b>	<b>27,664</b>	<b>26,526</b>	<b>26,187</b>

Source: Wage and Investment Division data.



## ***Analysis of Resources Allocated to Taxpayer Services***

### **Appendix V**

## **Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

DEC 05 2016

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland *Debra S. Holland*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Analysis of Resources Allocated to  
Taxpayer Services (Audit # 2016N11CR06)

Thank you for the opportunity to review the subject draft report and provide comments. We appreciate your acknowledgment of the challenges presented by unfunded mandates, late-enacted legislation, and the impact reduced funding has on the IRS' ability to provide optimal levels of customer support.

Generally, the budget process begins two years prior to the start of the fiscal year. Budget formulation activities for Fiscal Year 2015 started in the fall of 2012, and continued through January 2014. During the formulation process, each business unit within the IRS projects the funding it will need to perform its mission within the IRS and to support the IRS' mission of serving taxpayers and administering the tax system. From these individual business unit plans, IRS leadership must prioritize needs and make difficult decisions at the enterprise level as to how the funding provided to the IRS will be allocated across the organization to maximize its ability to meet the dual responsibilities of service and administration. From Fiscal Years 2010 through 2015, the funding appropriated to the IRS decreased by almost \$1.2 billion (9.9 percent) and \$2.3 billion in real terms. During this time, the enactment of several new tax provisions, with no additional funding allocation for their implementation, resulted in additional demands that competed for funding. Additionally, inflationary cost increases since Fiscal Year 2010 have not been funded and the IRS was required to absorb these additional costs from the base allocated resources. The report provides an accurate description of the process and the budgetary environment.

The Fiscal Year 2015 funding for the IRS was authorized by the Consolidated and Further Continuing Appropriations Act, 2015 (the Act) on December 16, 2014. Prior to that time, the government had operated under a continuing resolution that provided for funding at Fiscal Year 2014 levels. Under the Act, the IRS' funding for Fiscal Year 2015



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## ***Analysis of Resources Allocated to Taxpayer Services***

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was reduced by almost \$346 million. As the funding levels were evaluated by IRS leadership, it was determined that the amount appropriated for Operations Support, which funds virtually all support needs of the IRS including rent, utilities, and automation support critical to our ability to provide service to customers, would not be sufficient to support the customer service and administrative operations. A decision was made to allocate a greater amount of user fees to Operations Support than had been done in previous years, permitting us to provide basic taxpayer services, process tax returns, and address other obligations of tax administration.

Because the IRS had operated under a flat budget assumption for the first three months of the fiscal year, the effects of the reduction were further compounded by the need to absorb it over a period of only nine months, rather than a full year. This is especially evident in the comparison of the staffing that had initially been allocated to telephone and correspondence services at the beginning of Fiscal Year 2015, to the revised staffing level after the final allocation to the Accounts Management function was determined in early February 2015. Initially, assuming a flat budget scenario, the IRS projected in November 2014 that 13,743<sup>1</sup> full-time equivalent (FTE) staff years would be available for correspondence and telephone services, with 7,649 FTE directed to correspondence and 6,094 FTE devoted to toll-free service, resulting in a 54 percent level of service (LOS) for telephone assistance. Upon receiving the final allocation, which permitted only 12,137<sup>2</sup> FTEs, the planned staffing for correspondence was reduced from 7,649 FTEs to 6,892. The planned staffing for telephone services was reduced from 6,094 FTEs to 5,245, resulting in a revised telephone LOS projected at 38 percent.

We disagree with statements included in the report that indicate the IRS did not need to use a higher percentage of employees to work correspondence rather than answer telephones. This is a statement of opinion made with the benefit of hindsight. Original projections were completed at the start of the fiscal year, based on historical trending and available data. While the volume of estimated receipts was not realized by the end of the fiscal year, our revised projection in February 2015, did reflect a reduced estimated volume of over 413,000 pieces of correspondence for the year, based on receipt and closure data compiled since the original projection. Further, the correspondence inventory levels at the end of Fiscal Year 2014 had little or no relationship to decisions made in January 2015, when Accounts Management officials had to completely revise their work plans to absorb a net cut of 1,576 direct FTE and recalibrate projected receipt patterns based on emerging trends and new legislation.

If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (470) 639-3486.

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<sup>1</sup> Does not include non-direct support staff at 1,033 FTEs.

<sup>2</sup> Does not include non-direct support staff at 1,063 FTEs.