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Getting it Right

Investigation of service and fairness issues arising from the misallocation of payments by the Canada Revenue Agency

Ombudsman special report, July 2012 | J. Paul Dubé, Taxpayers' Ombudsman

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Ombudsman

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"Getting it Right"

TAXPAYER BILL OF RIGHTS

1. You have the right to receive entitlements and to pay no more and no less than what is required by law.
2. You have the right to service in both official languages.
3. You have the right to privacy and confidentiality.
4. You have the right to a formal review and a subsequent appeal.
5. You have the right to be treated professionally, courteously, and fairly.*
6. You have the right to complete, accurate, clear, and timely information.*
7. You have the right, as an individual, not to pay income tax amounts in dispute before you have had an impartial review.
8. You have the right to have the law applied consistently.
9. You have the right to lodge a service complaint and to be provided with an explanation of our findings.*
10. You have the right to have the costs of compliance taken into account when administering tax legislation.*
11. You have the right to expect us to be accountable.*
12. You have the right to relief from penalties and interest under tax legislation because of extraordinary circumstances.
13. You have the right to expect us to publish our service standards and report annually.*
14. You have the right to expect us to warn you about questionable tax schemes in a timely manner.*
15. You have the right to be represented by a person of your choice.*

**Service rights upheld by the Taxpayers' Ombudsman*

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Report Summary

Each year, the Canada Revenue Agency (CRA) processes approximately 34 million payments from Canadian taxpayers. Many taxpayers have multiple accounts with the CRA — for example, they may have personal income tax accounts, corporate accounts, and goods and services tax/ harmonized sales tax (GST/HST) accounts.

The CRA could be more proactive in educating taxpayers on how to avoid making errors when preparing their payments.

Our Office received complaints from taxpayers alleging that the payments they made to their accounts were “misallocated”— that payments were not applied to the intended account. Some said that as a result of these errors they had been assessed interest and penalty charges, while others told us they were subjected to payment demands from CRA collections officers. Many of these taxpayers complained about the time and effort they had to spend to correct such errors. Based on these complaints, we conducted a systemic investigation to determine the scope of the problem.

Our investigation revealed that payment misallocations do indeed occur. We learned that some of these are due to errors by the CRA while others can be attributed to taxpayers themselves. For example, if a CRA employee enters information on a taxpayer’s account incorrectly, this can cause a misallocation. On the other hand, if a taxpayer fails to provide certain relevant information with a payment, that omission can also result in a misallocation.

During our review, we learned that the CRA has quality assurance measures in place to detect and correct its own internal processing errors. However, if a misallocation is the result of an error or omission by a taxpayer, the controls to detect the problem are less stringent. While the CRA has implemented certain electronic payment options intended to minimize these errors, payments are still being misallocated and generating taxpayer complaints. We found that a large proportion of misallocations occur in the case of payments made by cheque. We have therefore made these errors the focus of this report.

Based on our analysis and findings, the Ombudsman makes a number of recommendations intended to address these problems and alleviate the impact on taxpayers. The Ombudsman recommends that the CRA review its standards and procedures for processing payments to ensure that CRA employees are afforded sufficient time to accurately and thoroughly perform their duties. The Ombudsman also recommends that the CRA determine the optimal remittance batch limit for the most efficient detection of processing errors. Additionally, the Ombudsman recommends that the CRA inform and

educate taxpayers on how to avoid making remittance errors as well as how to have them corrected when they do occur.

The Issue

Taxpayers are responsible for determining how much tax they owe and submitting the correct amount to the Canada Revenue Agency (CRA). They fulfill their tax obligations by filing tax returns and making any payments that may be due to the CRA. As Canada's national tax administrator, the CRA also has an obligation to provide taxpayers with the complete, accurate, clear, and timely information they require in order to fulfill their tax obligations or obtain benefits they are entitled to.

Many taxpayers have multiple accounts with the CRA – for example, they may have personal income tax accounts, corporate accounts, and goods and services tax/ harmonized sales tax (GST/HST) accounts.

Our Office received complaints from taxpayers claiming to have sent payments to the CRA which were not allocated to the account they had specified and intended. Based on these complaints, we initiated a systemic investigation to determine the scope of the problem. Among the complaints we investigated were cases in which payments were applied to the wrong accounts or to the wrong tax years. This occurred even though the taxpayers had attached payment instructions to their cheques, such as remittance vouchers or other written directives.

For example, a taxpayer might send a cheque to the CRA with a remittance voucher or note indicating that the payment was for the 2010 tax year. However, the CRA might instead allocate that payment to 2009 even though it was intended for 2010. The reasons for the CRA doing this are varied: the taxpayer may have used an inappropriate form, or a CRA employee may have made a keystroke error when entering the payment into the data system.

As a result of these payments being misallocated by the CRA, some taxpayers were assessed interest and penalty charges on accounts deemed overdue. Some taxpayers were contacted by CRA collections officers demanding payments even though their payments had already been remitted to, and received by, the CRA. Taxpayers also complained about the time and effort required to contact the CRA to have payment misallocations corrected and interest and penalty charges reversed.

Mandate of the Taxpayers' Ombudsman

An ombudsman is an independent and impartial officer who deals with complaints about an organization. In reviewing a complaint impartially, an ombudsman determines whether or not the complaint has merit and advises the parties of the conclusion. Where a complaint is found to have merit or be indicative of a systemic problem that may negatively affect stakeholders, an ombudsman typically makes recommendations to correct the problem with a view to preventing recurrence.

The Office of the Taxpayers' Ombudsman was created to support the priorities of stronger democratic institutions, increased transparency, and the fair treatment of all Canadians.

The Taxpayers' Ombudsman is mandated to provide advice to the Minister of National Revenue on service issues within the CRA. This is why the Ombudsman makes recommendations on systemic issues directly to the Minister.

The Taxpayers' Ombudsman fulfills this mandate by reviewing service complaints from taxpayers about the CRA, and identifying and reviewing systemic issues related to matters of service and fairness. A systemic issue is an issue that, if not identified and appropriately addressed, has the potential to have a negative impact in general, to recur, and to generate complaints. The Ombudsman's role is also to uphold the service rights within the Taxpayer Bill of Rights and inform Canadians about those rights.

Of the eight service rights the Taxpayers' Ombudsman is mandated to uphold, the three service rights most relevant to this systemic review are:

- The right to be treated professionally, courteously, and fairly (Taxpayer Bill of Rights, Article 5).
- The right to complete, accurate, clear, and timely information (Taxpayer Bill of Rights, Article 6).
- The right to expect the CRA to be accountable (Taxpayer Bill of Rights, Article 11).

What We Heard

Mr. A's story – Recurring misallocated payments

Mr. A is a small business owner who makes payroll remittances on a regular basis for his two employees. Mr. A told us that he took extra care when preparing his payments to the CRA to ensure that his instructions were clear. For example, he wrote the applicable pay period on both the back and the front of the cheque, as well as in the fields specified on the remittance voucher. Mr. A complained that even with these clear instructions to the CRA, his monthly remittances were credited to the wrong month eight times in a three-year period. This misallocation caused the CRA to claim that Mr. A's remittances were not up to date. To make matters worse for Mr. A, he was being assessed a penalty of 10% in addition to the debt that the CRA still considered he owed.

According to Mr. A, he called the CRA business enquiries line on five separate occasions in an attempt to rectify the errors, but was usually put on hold for long periods of time. Feeling frustrated, he wrote three letters of complaint to the CRA about these persistent problems. The CRA responded by correcting the allocation errors and offering him an apology for the inconvenience. Mr. A was even assured by the CRA that, in order to ensure quality service in the future, the employees in the payment processing section had been made aware of his complaint. It appeared to Mr. A that his complaints had been heard and meaningfully addressed by the CRA. However, several months after he received the letter of apology, the misallocations started again. Mr. A subsequently filed a complaint with our Office.

In reviewing Mr. A's file we discovered that the most recent misallocation was due to a keystroke error. His payment had been entered manually into the wrong month by a CRA employee. Furthermore, our review of CRA's letters to Mr. A confirmed that this was the second time the CRA had issued a written apology to him for its misallocation errors.

Ms. B's story – Collections action due to misallocated payment

Ms. B was contacted by CRA Collections regarding debts arising from her corporate tax account for 2007, 2008, and 2009. Ms. B claimed, however, that she had paid off all her balances and should not have had any outstanding debts with the CRA – especially a debt consisting of penalty and interest charges for late remitting. She tried to explain this to the collections officer assigned to her account, to whom she appealed for assistance in correcting the accounting mistakes on her file. Instead, she was told to send

copies of the front and back of the cancelled cheques in order to prove that the payments had in fact been made. Ms. B was also instructed to send a separate letter to her local tax services office requesting relief under the Taxpayer Relief Provisions for the penalty and interest charges that had accrued on the account, even though she insisted that they were assessed in error. She felt it was unfair that she had to spend so much of her time to prove and correct an error made by the CRA. As far as she was concerned, she had followed all of the instructions for making payments to the CRA yet her credibility was being questioned. She felt that the CRA was not taking responsibility for its own mistakes.

Our Office was able to intervene and resolve Ms. B's complaint. We discovered that the CRA had misallocated the payment to her previously closed corporate account rather than her current account. While the CRA did eventually correct the problem and reverse the penalty and interest charges, Ms. B explained that her confidence in the CRA had been diminished. She was convinced that without the intervention of the Ombudsman, she would still be trying to navigate through the various departments of the CRA in order to undo the CRA's misallocation errors.

The Scope of Our Review

Our Office began this investigation with a review of the payment process. We looked at each of the different payment options available to taxpayers and how they are explained on the CRA Web site. Additionally, we examined all the steps in the process, from the choice of payment options, to entry of payments into the CRA systems, to the final step of payment deposits.

Our investigation revealed that the misallocation of payments could be caused by several factors in the course of the process, from the way a taxpayer makes a payment to the processing of that payment by the CRA. The risk of misallocation is highest when payments are made by cheque. Since more than one-third of payments made to the CRA in 2010–2011 were made by cheque, this report focuses on the issues arising from that payment method. Specifically, our investigation looked at the causes of these payment errors and the CRA’s performance in regard to error prevention, detection, and correction.

While the CRA has expanded the payment options available to taxpayers including electronic payments, misallocations still occur and taxpayers continue to complain.

Understanding Misallocated Payments

What is a misallocation?

The CRA’s definition of a payment misallocation differs from taxpayers’ likely understanding of the term. A taxpayer considers his payment to have been misallocated if it was applied differently than intended. The CRA on the other hand considers a misallocation to have occurred when a payment has not been allocated according to its procedures. For example, if a taxpayer makes a payment for her 2011 taxes before the CRA has assessed her 2011 tax return, then the payment may be allocated to either a prior year balance owing or an instalment account. While this is according to CRA procedure, it is not the expressed intention of the taxpayer.

The CRA reviewed a small sample of complaints made to the business enquiries telephone lines and concluded that 35% of those misallocations were due to its own internal processing errors. As a result, the CRA took corrective measures to address these errors. We find it equally important, however, that the CRA analyze situations involving misallocations resulting

from “taxpayer error” to determine how to help taxpayers avoid such errors in the future.

We analyzed the statistics relating to the business enquiries telephone lines, and learned that despite the CRA’s increased communication efforts and enhanced self-service options, misallocated payments are still a concern for taxpayers. For example, within the first half of fiscal year 2009–2010, misallocated payments had been identified as one of the reasons for taxpayers’ calls to the business enquiries telephone lines.

Additionally, statistics from the CRA’s Service Complaints program reveal that taxpayers still complain about their payments being misallocated and continue to require the CRA’s assistance in correcting errors.

The CRA has an obligation to provide complete, accurate, clear, and timely information, as well as be accountable to taxpayers. The obligations are not limited to the detection and correction of errors caused by the CRA. The CRA is responsible for the administration of Canada’s tax system, which includes providing taxpayers with the necessary tools to conduct their tax affairs. If taxpayers are making payment errors, the CRA has an obligation to review its communication products and make revisions that will address the root causes of misallocations, since the impact remains the same regardless of who was at fault.

Impact of misallocations

On the taxpayer

If a taxpayer’s payment instructions are not understood or followed, allocation errors can occur. These errors can have a significant impact on the taxpayer. In extreme cases, they can also have a considerable impact on the taxpayer’s livelihood.

For example, this mistake could impact a taxpayer’s refundable credits, such as the GST/HST credit, as well as credits from other provincial/territorial programs that the CRA administers. These credits could be withheld and applied against a debt that was created in error. In addition, it could impact a taxpayer’s financial stability since the appearance of owing outstanding taxes to the CRA could affect one’s ability to obtain financing. In some cases, if the taxpayer is unaware that a misallocation occurred and if steps are not taken to address it, the CRA could exercise its authority to garnish wages or seize assets belonging to the taxpayer, unaware that a remittance was indeed made. A misallocated payment can have severe consequences for a taxpayer.

If a taxpayer’s payment instructions are not understood or followed, allocation errors can occur. These errors can have a significant impact on the taxpayer.

On the CRA

This issue also has a negative impact on the CRA. Misallocations undermine the CRA's ability to provide appropriate levels of service to Canadians, as well as place a costly strain on its resources. When a payment is misallocated, several sections within the CRA may have to deal with the problem. The error may prompt the taxpayer to contact the CRA, which would impact the telephone enquiries lines or the correspondence workflow. The Revenue Processing Section must trace and reallocate the payment. If the payment cannot be located in a timely manner the debt could be assigned to Collections, which would be working on a debt that does not really exist. Finally, the allocation error may result in the taxpayer filing a service complaint. It can take the work of several to remedy the error of just one person.

Payment Options Available to Taxpayers

Available payment options

The CRA offers taxpayers a variety of options for making payments on accounts.

Remittance vouchers

Remittance vouchers are generated automatically and provided to taxpayers by the CRA with paper tax returns, notices, letters, and statements. Remittance vouchers are pre-printed with magnetic ink which allows the information they contain to be read by a computer through the use of Optical Character Recognition (OCR) scanning technology. These vouchers are intended to accompany cheque payments and aid in the efficient processing and allocation of payments. In fact, they were used by 66% of taxpayers for the 2010–2011 tax year. It must be noted, however, that remittance vouchers cannot be reproduced or photocopied since the OCR scanning technology will not recognize the ordinary inks used by photocopiers and standard printers. On the back of the remittance vouchers is a warning that reproductions of the document are invalid. The CRA has also placed notices to that effect on its Web site and in tax guides. Unfortunately, despite these warnings, the CRA still receives payments from taxpayers with photocopied remittance vouchers that cannot be scanned electronically.

My Payment

My Payment is an electronic payment service available through the CRA Web site which allows individuals and businesses to submit payments directly from their online banking account.

The *My Payment* service may help reduce the frequency of misallocated payments because before the payment can be processed, the taxpayer must identify themselves and specify how the payment is to be allocated. Four of the five leading major financial institutions make this option available to their clients.

Online payment through a financial institution

An online payment made through a financial institution differs from the *My Payment* service, which uses *Interac® Online* to process the payment. In contrast, almost all banks and credit unions in Canada offer online banking by which payments can be made directly to the CRA.

Online banking allows the taxpayer to specify to which account and period the payment should be applied. This reduces the likelihood of a taxpayer omitting important payment allocation information.

My Account

The CRA Web site offers a service called *My Account* which allows taxpayers to view and manage their personal income tax and benefit accounts online. With *My Account*, individuals are able to see a detailed payment history and account balance, which would allow them to identify a misallocated payment.

My Account does not, however, allow individuals to correct a misallocated payment because of interest implications and the complexity of accounting involved in transfers from one account to another. Rather, individuals must rely on the CRA to make the correction.

My Business Account

My Business Account operates for businesses in a somewhat similar way that *My Account* operates for individuals. Businesses can access their various business accounts (GST/HST, payroll, and excise taxes) online as well as perform certain transactions. However, in addition to viewing account information in *My Business Account*, taxpayers can also transfer payments electronically.

Until recently, requests could only be made for payment transfers within the same account, but the payment transfer function has been extended to allow for transfers between different business accounts. Since April 2011, users can transfer a payment in an interim period between program accounts with the same nine-digit business number.

We have been informed that the CRA intends to implement the next phase in April 2013, and this will offer the ability to transfer payments from one business number to another.

CRA's communication of payment options

The CRA has made available numerous communications products to inform taxpayers about payment options. The home page of the CRA Web site includes a direct link titled "Making Payments" under the "Key Information" header.¹ This link brings the taxpayer to a page where the payment types are broken down by account type, such as T1-individual, T2-corporate, GST/HST, excise and other levies, as well as payroll. Each of these sections provides information on the available payment options. In addition, the respective guides, statements, and notices published by the CRA contain similar information on payment options. Taxpayers are also encouraged to contact the CRA via its various telephone enquiry lines if further assistance is required.

Analysis of the Payment Process

Processing of payments by cheque

The CRA has acknowledged to us the importance of ensuring that taxpayers' payments are credited to the right account and says it has established procedures with this in mind. The essential steps in the processing of payments made by cheque are outlined in the CRA's training manual, and are summarized as follows:

Step 1: A cheque payment is received.

Step 2: A clerk reviews the payment and remittance document (e.g. remittance voucher). If a remittance document has not been submitted, an input document is created by the clerk according to the information received from the taxpayer.

¹ <http://www.cra-arc.gc.ca/tx/pymnts/menu-eng.html>

Step 3: The remittance documents and payments are grouped together or “batched” and the payments magnetically encoded using Magnetic Ink Character Recognition (MICR). This allows for better control of the payments and allows for errors to be easily traced and corrected.

Step 4: The data taken from the remittance documents and payments are keyed by a clerk into the system. The system performs balancing and validity checks. Corrective action is taken accordingly.

Step 5: Remittance documents and payments are imaged by scanning in sequential order.

Step 6: Payments are forwarded to the deposit area to be included in the daily deposit.

Magnetic Ink Character Recognition is a character recognition technology used by the CRA on its remittance vouchers. The magnetic ink allows the processing equipment at a financial institution to clearly identify where the payment must be directed.

In analyzing the steps in this process, we discovered many errors that could be factors in misallocation — some due to errors by the CRA, and others due to errors by the taxpayer.

Causes of incorrect allocation

Errors during payment processing

The misallocation of taxpayers’ payments can result from various errors by CRA employees. For example, when a payment is received with written instructions from the taxpayer, but without a remittance voucher, the CRA employee is required to prepare an Internal Payment Transcript with the relevant information. If the employee misinterprets the taxpayer’s intent or omits pertinent information, errors can result.

Misallocation errors may also occur in the following circumstances:

- If the CRA employee keys the information from the remittance documents incorrectly.
- If the CRA computer system reallocates the payment in a manner contrary to that which was originally keyed by the receiving area. For example, Employer Services may allocate a payment according to the instructions given by a taxpayer (e.g., apply to the current year), yet system logic may override that allocation and instead apply it against the oldest year outstanding.

Fulfilling the 24-hour deposit mandate

The CRA is required by law to deposit public money once a day, with the objective of maximizing daily deposits and interest accrual for the Receiver General. Previously, the performance standard was set at 100%, which required all payments received at the CRA to be processed within 24 hours of receipt. This policy put pressure on the payment processing section to complete its transactions within tight time constraints, thereby increasing the risk of errors being made.

The CRA eventually determined that the previous target was unachievable and, as of April 2007, reduced the performance standard to 96%. Internal monitoring suggests that the new standard is achievable from an operational perspective, but the CRA has not conducted any analysis into what effect the standard change has had on misallocated payments or its service to taxpayers.

Although the CRA has made changes to its policies and procedures involving payment processing to ensure that it routinely meets its primary corporate commitments, it is also essential that the CRA analyze the impact that its policy changes have on its service to taxpayers.

Errors when remitting payments by cheque

In addition to errors by the CRA during payment processing, we found errors by taxpayers that could potentially cause payments to be misallocated. The following are some examples:

- Unclear or illegible handwriting.
- Payments with incorrect information or without the proper remittance vouchers provided by the CRA (i.e., reproductions).
- Omission of identifying information such as a business number or social insurance number.
- Issues with date transference—does 11-06-2009 mean June 11, 2009, or November 6, 2009?

Generally speaking, the CRA attempts to process payments according to taxpayers' instructions. However, taxpayers sometimes provide insufficient information or instructions with their payments. In such instances, the CRA will not contact the taxpayer to clarify the payment instructions before allocating the payment.

Rather, when CRA employees receive a payment without clear instructions on where to apply it, they follow an established set of procedures in an attempt

to determine the intended allocation for the payment. Specifically, they will access the taxpayer's account to look for amounts owing that appear to correspond to that payment. If the amount for that year or that payment type is the same as the amount of the cheque, then the payment will be applied accordingly. If the allocation year is not readily apparent, the payment will be applied to the oldest year outstanding until there is nothing left owing. If there is no balance owing, it will be applied to instalments.

Unidentified payments

The Revenue Processing Section often receives payments without sufficient information to allow it to determine which accounts they should be applied to. These payments may come from a first-time taxpayer, or may have one or more of the following deficiencies:

- A name and address (but no account number).
- A name only (no address and no account number).
- An illegible name (with or without an address and no account number).
- No identifying information at all.

These payments are usually classified as “unidentified” and require additional research to accurately allocate them. For fiscal year 2009–2010, the CRA received a total of 203,257 unidentified payments that required investigation.

Though 97% of these payments were successfully processed to taxpayer accounts within 15 days, 3% could not be allocated within this timeframe. This necessitated even further investigation by the CRA. Even upon further investigation, some of those payments were still unidentifiable and had to be classified as “unknown” and moved to the CRA's Corporate Suspense Section.² Although statistics on how many unknown payments were moved to Corporate Suspense were not available, we did note that the section received a total of 15,678 unknown payments in fiscal year 2009–2010 from all accounting areas within the CRA. We advised by the CRA that attempts to resolve the lack of identifiable information involved 10,078 direct hours of work.

A simple error in preparing a payment thus becomes an issue for both the taxpayer and the CRA. Taxpayers have to spend a considerable amount of time and energy to rectify these errors and may be adversely affected by the

² With broader access to CRA systems, the Corporate Suspense Section can trace the identity of payments that could not be identified by CRA's various accounting areas, such as the Revenue Processing Section.

misallocation of the payment. Our investigation has shown that the CRA also spends a considerable amount of time, effort, and money in remedying taxpayers' errors.

CRA Oversight and Corrective Measures

As part of our investigation, we looked into the CRA's quality assurance practices at the local and headquarters levels to determine whether sufficient oversight was in place to reduce error occurrences.

Quality assurance

We found that within CRA tax centres, Revenue Processing Sections have established quality assurance programs for payment processing. Specifically, we noted the following assurance measures:

- Production and error rate reviews by correction clerks.
- Error identification procedures.
- Random batch reviews.

Correction clerks

Within each section, immediate oversight comes from correction clerk, whose responsibilities include correcting processing errors as well as overseeing the productivity of payment processing clerks. This involves monitoring error rates to ensure that processing clerks do not exceed the CRA's standard error acceptance rate of 2% per operator per shift. Less experienced payment processing clerks are reviewed for quality assurance until they routinely meet the standard error acceptance rate. Subsequently, they are monitored through random sampling. Each tax centre produces daily online reports that track the performance variables of its processing clerks. This allows errors to be detected and corrected in real time.

Error identification procedures

If an operator has exceeded the acceptable error rate during their shift, the clerk's performance can be addressed immediately. The front line supervisors and their respective Technical Advisors review how batches were processed by that clerk and identify any areas where further training is required. As an additional quality assurance precaution, all of the work of payment processing clerks who exceed the 2% threshold is verified until the error rate falls.

Random batch reviews

The CRA also conducts random reviews of the payments that are batched to ensure that they are being processed correctly. While procedures suggest that a batch can contain up to 250 payments, tax centres can opt for a lower amount. The Surrey and Winnipeg Tax Centres, for example, reduced their batch amounts to less than 100 since they determined that smaller batches made batch reviews easier to handle and process while allowing more control of accuracy.

The actual number of batches pulled for random review depends on various factors, such as the number of batches processed that day and the processing clerks' experience level. For example, during non-peak periods, experienced clerks are reviewed at a rate of 80%, but during peak periods (the 15th and 30th of the month), their review rate drops to approximately 10%-15%. This reduction ensures adherence to the 24-hour deposit mandate while still allowing a review to take place. If errors exceeding the acceptable error rate are detected during that review, however, the review percentage increases, the previous entries in the batch are voided, and the batch is re-started in order to correct the errors. As a further quality measure, all batches processed by that clerk are 100% manually reviewed. In the case of new clerks and those still in training, their review rate remains at 100% during both peak and non-peak periods.

Oversight by Headquarters

In addition to the processing oversight, the Revenue Processing Sections are monitored by Headquarters (HQ) through field visits. These monitoring trips occur once every two years at tax centres and once every three years at tax services offices. A monitoring framework is developed for these visits, which contains a series of questions based on processes and procedures set out by HQ. These questions verify that those employed in the Revenue Processing Section understand and are aware of the processes to be followed and the reference resources available to them.

The performance variables that are monitored during these visits include total transactions processed, items processed per hour, keystroke accuracy, and error rate and issues identified. A report is submitted after each visit to the local management of the applicable tax centre or tax services office which includes recommendations for procedural improvements. HQ then monitors progress to ensure the improvements have been implemented.

The CRA's Action Plans

During our investigation, the CRA informed us that in an effort to reduce the occurrence of misallocated payments, further enhancements had been made to cheque processing that will result in 90% of all cheques and vouchers being scanned rather than keyed manually.

The Ombudsman's second Annual Report³ profiled a complaint about a misallocated payment. In response, the CRA advised that it would begin to "compile statistics which will be used to identify the cause of errors and assist in the development of preventative measures." The analysis was originally intended to be completed in April 2011, however, it is still ongoing. We will continue to follow up on the CRA's analysis of misallocation errors to ensure that preventative measures are indeed established.

Conclusion

As noted previously, our investigation discovered that both the CRA and taxpayers are responsible for payment misallocation errors. Although the CRA has established procedures to reduce internal payment processing errors, we found that more could be done to ensure the accurate allocation of payments remitted by taxpayers. We also found that the CRA could be more proactive in educating all taxpayers on how to avoid making errors when preparing their payments.

Incorrectly completed forms

During monitoring visits of the payment processing areas within the tax centres, the CRA noted that the internal transcript forms for remittances were not being properly filled out. Although CRA HQ advised that the processing areas could omit the address and instead record the postal code to save time, the processing areas were also omitting the business or taxpayer name. This missing information makes it difficult to research whether an account number is wrong, which could result in the payment being misallocated. Omitting relevant information because of time constraints or directions from HQ can result in errors.

When we raised this concern with the CRA, it explained that the Payment Processing Section had partnered with the Training and Learning Directorate (TLD) to complete a learning needs analysis. The TLD completed a task

³ <http://www.oto-boc.gc.ca/rprts/2009-2010/rprt-nl0910-eng.html>

analysis and identified two gaps in coding and searching items which are considered critical for proper payment allocation. The CRA advised that further analysis is required to determine whether employees involved are afforded enough time to complete their tasks properly.

Payment processing performance standards

Our analysis of payment processing procedures and oversight thereof revealed that the CRA is taking steps to ensure that it meets its performance standards. We have concluded, however, that the requirement to meet the 24-hour deposit mandate does have a negative impact on the efficiency of payment processing, and on the quality of service being provided to taxpayers.

Batch size

The CRA can also improve its service to taxpayers by ensuring that system errors are easily identified and corrected in a timely manner. During our analysis of payment processing procedures, we noted that as many as 250 payments can be combined in one batch, yet each tax centre has discretion in establishing batch sizes. The CRA's 2009–2010 monitoring reports showed that some tax centres opted to reduce batched payments to 60–100. It was apparent that smaller batches improved both the speed and the accuracy of payment processing since keying errors could be detected and corrected more quickly and easily. Since a batch containing errors must be voided and re-started, smaller batches increase the efficiency of the process and decrease the likelihood of another keying error occurring when the batch is re-started.

Remittance vouchers and taxpayer error

Even though the CRA provides instructions on how to properly submit a payment and warns against the reproduction of remittance vouchers, remittance errors involving invalid vouchers and payments lacking sufficient information are still occurring. By assessing the causes and frequency of these occurrences (such as the wrong tax year indicated on the voucher), the CRA will be able to revise its communication products to address the common errors being made by taxpayers and instruct on how to avoid them. By taking such proactive measures, it is hoped that the CRA will be able to reduce instances of taxpayer error. Even reaching a small segment of the population could have a significant impact on costs, given that the CRA invests nearly 200,000 hours per year to identify payments.

Taxpayer education

We recognize that although the CRA cannot be entirely responsible for errors made by taxpayers, it does have an obligation to make readily available information on how to avoid errors. While statistics show that 97% of the payments that flow through Payment Error Correction and the Unidentified Payment Error Correction workloads are processed to taxpayers' accounts, there is still no guarantee that this reflects taxpayers' actual intentions. Moreover, the CRA has no procedures in place to notify taxpayers when uncertainty arises in applying their payments, nor are taxpayers educated on how to avoid these errors in the future. If a taxpayer is not aware that they made a mistake when remitting their payment, they may repeat it.

As stated previously, both the CRA and the taxpayer play a part in misallocated payments. The CRA, however, is responsible for providing the tools to assist taxpayers in fulfilling their obligations under Canada's self-assessment tax system. Therefore, regardless of who makes the error, the CRA must ensure that its communications to taxpayers are clear and appropriate. While we find that the CRA has taken appropriate steps to address those instances where the CRA itself caused the misallocation, we find that it needs to be more proactive in identifying and addressing the reasons for taxpayer error as well. By doing so, it will be in a better position to provide the optimal level of service to taxpayers, and in turn may reduce the direct hours spent on error correction and increase the efficiency of processing payments.

Recommendations

Based on the foregoing, the Taxpayers' Ombudsman recommends that the CRA:

1. Review its standards and procedures for processing payments to ensure that clerks are afforded sufficient time to perform their duties with accuracy as well as efficiency.
2. Determine the optimal payment batch size for the detection and correction of errors.
3. Inform and educate taxpayers on how to avoid making remittance errors as well as how to have them corrected when they do occur.