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

COMMISSIONER

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: for Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report - Expanding the Electronic Tax Law Assistance Program (Audit No.199930108)

We appreciate the opportunity to respond to your draft report entitled "Expanding the Electronic Tax Law Assistance Program." The Electronic Tax Law Assistance (ETLA) program is designed to answer tax law and procedural questions received from customers who use the Internal Revenue Service (IRS) Internet web site (Digital Daily). The IRS has answered over 300,000 inquiries via the ETLA system since the beginning of the Fiscal Year (FY) 2000 through July 1, 2000. Although the program is not currently being advertised, it has grown substantially since it started as a pilot in 1994, with a doubling of inventory each year prior to FY 2000. We expect an increase of about 33 percent in FY 2000 over FY 1999. The program has been well received by the public.

We are transitioning ETLA to a fully supported production system; however, we must address technological and staffing issues before we can offer ETLA as a parallel service to the telephone. As your report pointed out, ETLA is labor intensive with staffing coming from the same limited pool of resources needed to answer telephone inquiries. Short-term, we do not expect that advertising ETLA will decrease telephone inventories enough to allow telephone staff to be diverted to ETLA work.

We agree with most of the recommendations in the report but not with some of the specific solutions proposed. While we agree that some form of automation to assist in answering ETLA inquiries must be ready before advertising the service, we do not agree that the "probe and response" technology is the solution. This type of automation would not be an effective alternative for answering a large variety of complex tax law inquiries received in the ETLA program. Customer questions tend to be very specific to their situation. A "probe and response" system requires customers to answer a list of questions that may not get them the answer they need. The report also does not acknowledge the automated self-service applications available to customers on the IRS

web site. We encourage customers to use these features before submitting questions to ETLA.

We are planning to develop automated applications within ETLA. Initial proposals include a system to analyze questions and attempt a response while the customer is still online. The customer could resubmit the question immediately for an assistor to respond if the answer does not fully address the question.

Changes to the ETLA infrastructure are part of the IRS' Modernization effort that includes plans to develop a web-enabled call center to integrate electronic communications with telephone inquiries. We expect additional automation to be a primary objective of any future ETLA system. Much work is required to develop and implement such a system and test its effectiveness. But even with new automation, we will still need assistor support in answering tax law inquiries.

While we agree that a salary cost is associated with handling ETLA questions, we do not agree with your estimates of $21.9 million increased revenue and $1.5 million cost savings. Less revenue may be generated and more costs may occur with the shift of resources. For example, the cost savings for Compliance staffing doesn't consider that the IRS would have to hire and train additional Customer Service (CS) staff to handle the inquiries answered by Compliance. These costs would off-set the savings identified for Compliance salaries. Also, some compliance resources will be needed continually to handle more complex issues and short term spikes in demand.

Our comments on the specific recommendations in your report are as follows:

IDENTITY OF RECOMMENDATION 1
To meet its Electronic Tax Administration goals, the IRS needs to redesign the ETLA program to leverage technology that will provide enhanced access to tax information, maximize efficiency and improve electronic customer service.

ASSESSMENT OF CAUSE
Redesigning the current ETLA system to maximize efficiency and reduce the level of assistor support required to answer customer inquiries will have significant benefits. Since the project was a pilot when we were developing the initial deliverables for IRS Modernization, it was not considered for redesign earlier.

CORRECTIVE ACTION
CS has submitted a Request for Information Service (RIS) (TCP-9-0198) asking Information Systems (IS) to assume system responsibility for ETLA in FY 2001. The RIS requested a system with the capability to analyze questions and respond using a prepared answer that would satisfy the customer. The system has been proposed as a self-service interaction, allowing the customer to resubmit immediately for an assistor to

respond with more specific information. Another component would automatically suggest one or more responses which assistors would review to select and/or modify as needed or disregard if not satisfactory. Both features would be supported by an expanded database of prepared answers, which we expect as a result of the Pacific-Northwest District office project to analyze the ETLA database and develop new prepared answers based on frequently asked questions received over the last few years. The RIS also includes a request for auto-classification of questions (rather than allowing the customer to classify). This auto-classification will result in more effective routing to appropriately trained assistors. Our goal is to implement some or all of these features for the 2002 filing season; however, we have not received a final response to the RIS.

IMPLEMENTATION DATE
Proposed: November 1, 2001

RESPONSIBLE OFFICIAL:
John R. Watson
Director, Customer Account Services

CORRECTIVE ACTION(S) MONITORING PLAN
Pending a final decision on the transition of ETLA to IS in 2001 and a response to RIS TCP-9-0198, we will begin working with IS to find what capabilities will be delivered first. We requested funding for contractor support for this effort in the 2001 budget (approval pending).

IDENTITY OF RECOMMENDATION 2
To effectively administer the rapid growth of customer demand, economically use resources and design future enhancements of the program, the IRS needs to fully commit to the ETLA program by converting it from a long-term research project to a fully supported independent function. A state-of-the-art system design is needed to provide a valuable service to customers at minimal cost.

ASSESSMENT OF CAUSE
Specific plans for system development have been delayed because the project has not been transferred to IS. In addition, because the project was still a pilot, we did not have plans to redesign it.

CORRECTIVE ACTION(S)
We expect changes to the ETLA infrastructure to include plans to develop a web-enabled call center to integrate electronic communications with telephone inquiries. The requirements for ETLA are being defined. Some aspects of the proposed

integrated system will be delivered in 2002 and others will be delivered later in the modernization cycle. We expect further automation to be an objective of the future ETLA system.

IMPLEMENTATION DATE
Proposed: September 30, 2002

RESPONSIBLE OFFICIAL:
John R. Watson
Director, Customer Account Services

CORRECTIVE ACTION(S) MONITORING PLAN
The development of requirements for the IRS' Modernization effort is ongoing.

IDENTITY OF RECOMMENDATION 3
Until there are technological changes and an organizational commitment, the IRS needs to delay the marketing of the ETLA program. In the interim, the IRS should expand the ETLA program to additional call sites to process the ever-increasing customer demand for this electronic service while reducing the need to use more expensive Compliance personnel.

ASSESSMENT OF CAUSE
ETLA is a popular feature of the Digital Daily. Recent data from a DORA study profile of ETLA customers indicates that 47 percent of users had not contacted the IRS in the last 3 years. This data suggests that ETLA supplements other services provided by IRS, and advertising will generate additional demand.

Compliance resources are used to supplement CS staffing during periods of substantial increases in customer demand, i.e., filing season. Although CS will be hiring additional assistors over the next two to three years, some Compliance resources will be needed continually to handle more complex issues and short-term spikes in demand.

CORRECTIVE ACTION
We agree that delaying marketing ETLA service pending necessary systems enhancements is prudent. However, we do not agree with the recommendation to expand the number of ETLA sites. Instead of adding more sites, we are increasing CS staffing assigned to ETLA at the existing sites. We are also expanding server capacity to allow additional assistors to use the system simultaneously. In addition, this action should improve efficiency.

We are in the process of hiring additional CS staff for FY 2001 to reduce the amount of Compliance support required during the filing season. Plus, we are pursuing a 3-year plan to phase out Compliance support while increasing CS resources.

Through our modernization efforts, we have plans to develop additional self-service tools and a web-enabled call center to integrate electronic self-service tools and communications with telephone inquiries. We expect the decision to complete the expansion of ETLA will be linked to the roll-out of this new technology.

IMPLEMENTATION DATE
Proposed: December 31, 2000 (hiring additional staff)

RESPONSIBLE OFFICIAL:
John R. Watson,
Director, Customer Account Services

CORRECTIVE ACTION(S) MONITORING PLAN
N/A

If you have any questions, please call Ron Watson, Director, Customer Account Services, at (678) 530-6612.