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TAX
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IRS Faces Challenges
in Reorganizing for
Customer Service



General Government Division

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The Honorable Orrin G. Hatch
Chairman
The Honorable Bill Bradley
Ranking Minority Member
Subcommittee on Taxation and IRS Oversight
Committee on Finance
United States Senate

The Honorable Richard C. Shelby
Chairman
The Honorable J. Robert Kerrey
Ranking Minority Member
Subcommittee on Treasury, Postal Service,
and General Government
Committee on Appropriations
United States Senate

The Honorable Nancy L. Johnson
Chairman
The Honorable Robert T. Matsui
Ranking Minority Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Honorable Jim Lightfoot
Chairman
The Honorable Steny H. Hoyer
Ranking Minority Member
Subcommittee on Treasury, Postal Service,
and General Government
Committee on Appropriations
House of Representatives

The Internal Revenue Service (IRS) is undergoing a major effort to modernize its information systems and restructure its organization. This effort includes several components, one of which IRS calls its "customer service vision." The vision is a plan for improving IRS' interactions with taxpayers and includes combining several parts of IRS' field organization into 23 customer service centers. These centers would primarily work by telephone to provide taxpayer service, distribute forms, collect unpaid

taxes, and adjust taxpayer accounts. They would absorb current IRS telephone operations and attempt to convert much of IRS' written correspondence work to the telephone.

We reviewed the progress IRS has made toward its customer service vision because of the magnitude of the changes being undertaken, the potential for improved performance, and the complexity of the challenges IRS must overcome to make its vision a reality. This report was not prepared at the request of the Committees, but as part of our continuing efforts to provide information and analysis to improve tax administration. The report discusses (1) IRS' goals for customer service and its plans to achieve them, (2) the gap between current performance and these goals, (3) its progress to date, (4) current management concerns, and (5) several important challenges IRS faces. We believe the report will be useful as a baseline for assessing IRS' progress over the next few years.

Results in Brief

IRS' goals for its customer service vision are to (1) provide better service to taxpayers, (2) use its staff and facilities more efficiently, and (3) raise the level of compliance with the tax laws. IRS plans to better serve taxpayers by improving their accessibility to telephone service and resolving most problems with a single contact. IRS expects to improve its efficiency by (1) having fewer work locations and automated workload management, (2) giving customer service representatives better computer resources and nationwide access to taxpayer accounts, and (3) moving work currently done by correspondence to the telephone. IRS expects to improve compliance by answering more taxpayer inquiries and having more timely data to follow up on compliance problems.

The gap between IRS' current operations and its customer service vision is very great. For example, IRS plans to improve telephone accessibility by greatly reducing busy signals on its new customer service telephone system. In contrast, taxpayers who called IRS' Taxpayer Services toll-free sites in fiscal year 1994 got busy signals 73 percent of the time.

IRS has made some progress toward its customer service vision, including selecting sites for the new centers, experimenting with two prototype sites, and beginning operations at five more customer service centers. However, implementation still has far to go. For example, as of June 30, 1995, only 925 of an eventual 22,240 staff had been reassigned to customer service centers. The new computer and telephone systems planned to support customer service were still in an early stage of development and

testing. IRS officials recently acknowledged that the transition would last beyond the original goal of full operation in 2001.

A lack of clarity in management responsibilities has, to some extent, hampered IRS in implementing its customer service plans. This is reflected both at the senior management level for achieving the customer service vision and at lower management levels for specific Tax Systems Modernization (TSM) projects crucial to the vision.

First, because the work units and related resources that are to make up the new customer service organization currently belong to two separate IRS organizations, Managing Accounts and Ensuring Compliance, there is no “owner” in terms of a single individual responsible for the success of all the work activities and resources that are to be transferred to customer service. IRS officials are aware of the potential for problems related to the lack of ownership for customer service and plan to resolve the issue of a single owner for customer service within the next few months.

Second, at lower management levels, we found instances in which “products” were being developed for use in the customer service sites that had no clearly designated process owners. Process owners are responsible for making sure new products are successfully integrated into the organizations that are to use the products. To illustrate, an IRS project office is charged with developing numerous interactive telephone systems to allow taxpayers to resolve many issues without speaking with an IRS customer service representative. Although these interactive telephone systems are crucial to IRS’ customer service vision, one of the systems was developed without a clearly designated owner. However, near the end of the pilot test for the one system, an owner was designated. This was over 2 years after the project office began the design and development of the system.

The absence of an owner’s involvement during project development could result in products that do not meet the owners’ operational needs. It also puts the project office in the position of either making decisions that should be made by those who will use the products or stopping development. In this one case, the project office continued with development, and IRS officials told us that no adverse effects resulted.

Third, we identified two other instances in which IRS officials had assumed ownership roles for interactive telephone systems, but had not carried out their duties to establish the quality measures critical to evaluating their

performance. In these instances, the owners did not provide timely input for quality measures. After testing of the systems had begun, the owners called for additional quality measures, resulting in a delay. IRS officials said they wanted to be involved earlier, but ongoing workloads prevented them from doing so.

The management issues we identified have not had serious adverse effects because implementation of the customer service vision is still in the early stages. However, IRS documents showed and IRS officials confirmed that there was confusion about who should be assigned as an owner for TSM projects that are to support customer service operations and what those owners' responsibilities should be. IRS' top management had not made clear the criteria and responsibilities for ownership of the processes in situations that include projects such as the interactive telephone systems to support those processes.

To achieve its customer service goals, IRS will have to overcome several important challenges including (1) how to manage the transition to a different organization while maintaining ongoing workload, (2) deciding how much to expect of individuals in the new position of customer service representative, (3) developing and effectively using new information technology, and (4) devising ways to measure the work of the new customer service centers and balance their competing workloads.

Background

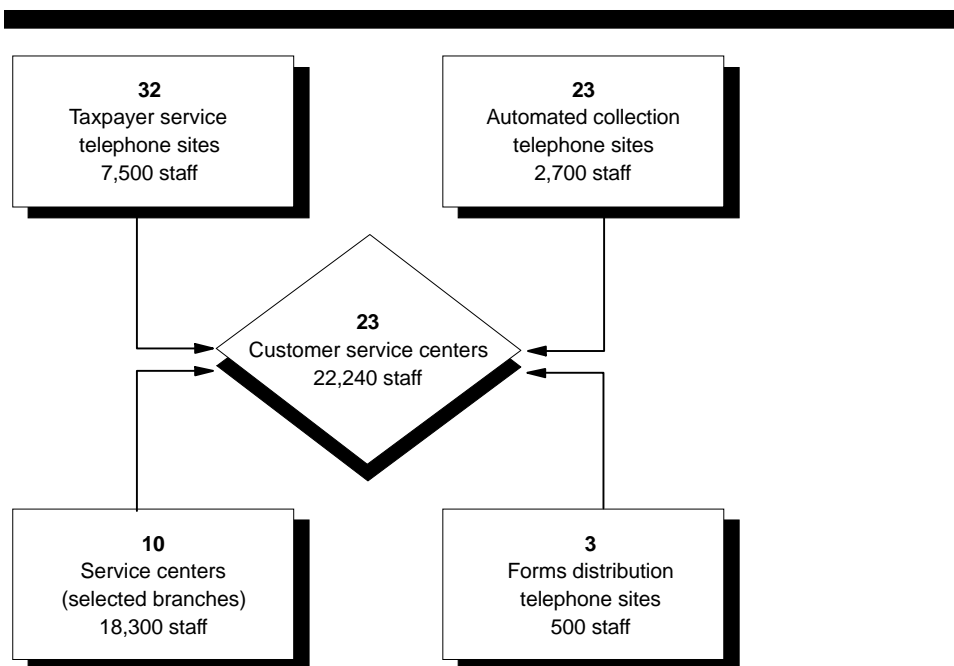
In 1986, IRS began to modernize its technology for processing tax returns, enforcing the tax laws, and assisting taxpayers. IRS was several years into its system modernization efforts before it began to study the implications for its organization and work processes. In response to suggestions from us and others, IRS decided that it should take this opportunity to redesign its organization and processes for administering the tax laws. Hence, TSM has become part of IRS' business vision for both technological and organizational change.

IRS' business vision includes the following basic organizational components: (1) submission processing centers to receive paper returns, correspondence, and other tax documents; (2) customer service centers to interact with taxpayers mainly by telephone; (3) district offices to use face-to-face contacts to assist taxpayers and enforce the tax laws; and (4) computer centers to maintain taxpayer accounts, process electronically filed returns, and receive electronic fund transfers.

IRS' customer service vision is a plan for changing the way IRS interacts with taxpayers. IRS does this in a number of ways, such as answering inquiries, clarifying and correcting tax returns, and collecting unpaid taxes. The agency has decided that these interactions are too fragmentary in its current organization and that taxpayers who contact IRS are too often told to call or write to other offices. It thus developed a plan to consolidate, in 23 customer service centers, work that has been done in at least 70 organizational units in 44 locations, including much work currently done by correspondence.

As shown in figure 1, this consolidation of functions involves a major restructuring of IRS operations, including a reduction in the number of staff doing customer service work in 1994 from about 29,000 to an estimated 22,240 in 2001. Customer service centers would absorb the functions of toll-free taxpayer assistance sites, which answer calls about tax law and procedures, taxpayer accounts, and notices that taxpayers receive from IRS. In addition, customer service centers would attempt to convert to the telephone some work now done by correspondence in the collection, adjustment, taxpayer relations, and underreporter branches of service centers. Customer service centers would also absorb the workload of the current automated collection call sites, which contact taxpayers to secure payments and answer calls from taxpayers who are the subjects of collection actions. Finally, customer service centers would handle requests for tax forms in lieu of the current forms distribution centers.

Figure 1: Consolidation of IRS Customer Service Functions and Reduction of Staff



Note: Staff numbers are approximate and include both full-time and seasonal employees. Staff performing customer service work are to be reduced from a 1994 level of about 29,000 to an IRS estimate of about 22,240 for 2001.

Source: IRS Business Master Plan and Customer Service Staffing Projections.

Objectives, Scope, and Methodology

We did this assignment because of the magnitude of the changes IRS was planning for its customer service activities. Our objectives were to describe IRS' goals for its customer service vision and its plans for achieving them, determine the current status of implementation, and identify major challenges facing IRS in moving toward its vision. To gather information on these objectives, we

- reviewed numerous IRS studies, plans, IRS' National Office customer service site visit reports, and training materials. The key documents used as baselines for following the progress of customer service were IRS' September 1993 Business Plan; April 1994 Business Master Plan; IRS Future Concept of Operations, Volume V, Customer Service Center, August 1994; November 1994 Customer Service Implementation Information; and February 1995 draft Integrated Transition Plan for Customer Service;

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- interviewed IRS' National Office officials responsible for customer service and related technology projects;
 - reviewed IRS' customer service workload model that was used for forecasting staff needs and the model used for selection of customer service sites, and discussed the latter model with officials of IRS' Office of Cost Analysis;
 - interviewed the Assistant Director of Negotiations at the National Treasury Employees Union (NTEU) who represents IRS' bargaining unit employees;
 - visited three of the seven customer service centers that had begun operations as of June 30, 1995: Nashville, TN; Fresno, CA; and Cincinnati, OH; and
 - reviewed related reports done by us, IRS' Internal Audit, and the National Research Council.

We requested comments on a draft of this report from the Commissioner of Internal Revenue or her designee. On August 21, 1995, we met with IRS officials to obtain their comments on the draft. IRS representatives at that meeting included the Assistant Commissioner for Taxpayer Services; the Customer Service Site Executive; the Director, Taxpayer Service Design and Review; and the Director, Collection Customer Services. Their comments are summarized on pages 24 and 25 and incorporated elsewhere in the report where appropriate.

We did our work from January 1994 to June 1995 in accordance with generally accepted government auditing standards.

Achieving Customer Service Goals Is Expected to Benefit Both Taxpayers and IRS

IRS' customer service goals are to greatly improve both its service to taxpayers and its efficiency in using resources. IRS also expects these improvements to contribute to a higher level of compliance with the tax laws. IRS intends to achieve these goals by consolidating several taxpayer interaction functions in customer service centers, giving customer service representatives broad training and responsibility, and using better technology. IRS' customer service vision, if achieved, would represent a substantial change from current capabilities and performance.

Intended Benefits to Taxpayers Are Fewer Contacts With IRS and Improved Telephone Accessibility

One goal of the customer service vision is to resolve 95 percent of taxpayer inquiries after one contact, which IRS refers to as initial contact resolution. In its 1993 Business Plan, which describes IRS' business vision, IRS stated that its interactions with taxpayers were fragmented among too many organizational units. One of IRS' reasons for consolidating taxpayer interaction functions is its perception that taxpayers are often referred from one office to another or told to write a letter to resolve their inquiries.

The difficulty of achieving this goal and of measuring its achievement is illustrated by one of IRS' first experiences with initial contact resolution in 1991. By giving telephone assistants additional computer terminals with access to taxpayer accounts and more authority to resolve issues, IRS tried to reduce the contacts taxpayers had to make to resolve questions about their accounts. However, we reported that IRS was not reliably measuring its performance in this area.¹ For fiscal year 1993, IRS reported achieving 96-percent initial contact resolution for these types of calls, but we found that about 80 percent of a small sample of these callers had to make additional contacts to resolve their account concerns. IRS acknowledged that its methodology for measuring initial contact resolution was flawed and agreed to develop a more accurate way to measure initial contact resolution for all types of calls.

IRS intends to reach its initial contact resolution goal by bringing functions together in customer service centers, giving its representatives broader responsibility and authority, and giving them better technological tools with easy access to the needed data.

Another IRS goal is to improve telephone accessibility. Currently, many taxpayers find it difficult to reach IRS by telephone. In fiscal year 1994, 73 percent of all call attempts received busy signals. IRS' Tele-Tax, an automated system in which taxpayers can listen to selected topic tapes and get refund status information did better, recording busy signals only 13 percent of the time.

IRS' business vision for customer service centers calls for greatly reducing busy signals. Callers would be satisfied by an automated response program, reach a representative immediately, be put on hold, or leave a message to be called back. IRS' plans call for having automated response programs resolve up to 45 percent of inquiries without intervention by a

¹Tax Administration: Better Measures Needed to Assess Progress of IRS' One-Stop Service (GAO/GGD-94-131, Aug. 29, 1994).

representative. IRS has an automated system that should allow it to route calls around the nation to balance peak and slack times in different areas. However, considering the shortcomings of current telephone accessibility to IRS, achievement of full accessibility is an ambitious goal.

Intended Benefit to IRS Is Greater Efficiency in Using Resources

In addition to providing improved service to taxpayers, IRS plans to achieve efficiencies of personnel and facilities use by combining functions, providing better data and technology to customer service representatives, and moving most of the correspondence work to the telephone.

Work to Be Combined at Fewer Locations and Workload Distributed Nationally

The 23 customer service centers are expected to assume the workload currently done at 32 taxpayer services toll-free sites, 23 automated collection call sites, 3 toll-free forms distribution sites, and several branches in the 10 IRS service centers, such as adjustments and collection. In many locations, existing operations are to be consolidated to form the customer service centers, but operations would be closed at 21 locations that currently house 14 taxpayer services sites, 9 collection sites, and 2 forms distribution sites. (See app. I.)

Existing IRS operations have drawn their workloads from geographically defined service areas; until 1995, employees had limited access to taxpayer data outside their service areas. When dealing with a taxpayer from another area, they had to request data from the IRS service center responsible for that area and recontact the taxpayer. In early 1995, IRS implemented a networking procedure among the 10 service center computers so that customer service representatives could have on-line access to some taxpayer account data nationwide, rather than only within their service areas. IRS plans to give its customer service representatives additional on-line access to taxpayer data nationwide. IRS also has an automated system that routes calls nationwide when one area is overloaded, and plans for the system to route specific calls and assign compliance cases on a nationwide basis to those customer service representatives that have the appropriate level of expertise to resolve the taxpayer's concern. Its goal is to even the workload as much as possible and use personnel efficiently.

IRS has projected that taxpayer interaction work now done by about 29,000 people will be done by about 22,240 at customer service centers. Under a redeployment understanding with the NTEU, IRS intends to gradually reassign employees to customer service centers from current positions

that are being eliminated. IRS expects the planned reduction to occur through attrition.

Customer Service Centers to Have Improved Technology and Access to Data

IRS employees interacting with taxpayers have often lacked easy access to information needed to resolve cases. This has not been just a geographic limitation, but also a result of fragmentation of taxpayer data into stand-alone systems that currently store different taxpayer data. Also, the current systems are not very user friendly because they require extensive knowledge of procedures and command codes.

IRS intends to provide its customer service representatives with on-line access to a national database encompassing all the taxpayer's account data and reference information needed to resolve most taxpayer accounts. In addition, new case processing software should help representatives work through cases more efficiently. Using a taxpayer's social security number to obtain case history information, the software should automatically assemble the relevant information on screen, provide questions and prompts for the representative, and perform calculations for updating the account. IRS is moving toward this goal by first developing an Integrated Case Processing (ICP) project that links together existing information systems and helps representatives use them.

Customer Service Centers Would Attempt to Convert Most Correspondence Work to the Telephone

In fiscal year 1994, IRS service centers received over 21 million pieces of correspondence from taxpayers. IRS has made progress in recent years in handling its correspondence. However, we reported in 1994 that IRS still had problems with timeliness, inadequate responses, and repeat correspondence on the same subject.²

One important assumption in the customer service vision is that most correspondence work from service centers can be converted to telephone and that this conversion will increase the productivity of IRS' staff. As of June 30, 1995, the Fresno, CA, Customer Service Center had substantial experience in converting correspondence, and the Cincinnati, OH, Customer Service Center had just begun. IRS has calculated that the Fresno prototype Customer Service Center, working by telephone, has been at least twice as productive as the service center adjustments branch, working by correspondence. However, the director of the study noted that the range of inquiries handled by the customer service center may not have been as complicated as at the adjustments branch. In addition, the study showed that the cost to process inquiries was lower using the

²Tax Administration: More Improvement Needed in IRS Correspondence (GAO/GGD-94-118, June 1, 1994).

customer service approach; however, telephone charges were not factored in the cost. Thus, while converting work from written correspondence to the telephone appears on the surface to be more efficient and less costly, the extent of savings from this approach is still unknown.

Success in converting correspondence to the telephone may require that IRS have authority to resolve more issues based on oral evidence from taxpayers rather than signed statements. Presently, some oral evidence is acceptable for such issues as penalty abatements up to a certain dollar amount. An IRS official told us that IRS might need legislation to remove some of the existing requirements for written evidence to meet its workload conversion goal. Achieving this goal would also depend on the willingness of taxpayers to resolve issues by telephone, which in turn may depend on the accessibility of the telephone service. If IRS does not succeed in converting a large percentage of correspondence workload to the telephone, it will need to retain more people than it is currently projecting to handle this workload.

Intended Revenue Benefit Is Improved Compliance With Tax Laws

IRS has stated that achievement of its customer service vision will contribute to improved compliance with tax laws. IRS believes that compliance will improve as a result of (1) improved service to taxpayers and (2) earlier access to taxpayer data that will allow IRS to follow up on unreported or underreported income and other problems with returns. Earlier access would come from the improved technology expected for processing returns and checking the returns against information from employers and other reporting sources at the time the return is filed. IRS estimates that through increased voluntary compliance, to which customer service will contribute, and increased enforcement efforts, overall compliance will increase from 86.4 to 87.2 percent by 1997. IRS estimates that the increase would generate about \$6.7 billion more tax revenue in 1997 than in 1994.

IRS Has Made Progress Toward Its Customer Service Vision, but Still Has Far to Go

IRS has described its customer service vision in various planning documents associated with its modernization effort, such as its Future Concept of Operations. It has also selected sites for its customer service centers, experimented with prototype centers, projected staffing needs, developed a schedule for start-up operations, and formulated a plan for progressively expanding the workload of new centers. As of June 30, 1995, the actual implementation of the customer service vision was still in an early stage.

IRS Has Selected Sites, Experimented With Prototypes, and Initiated Limited Operations

In December 1993, IRS announced the locations of future customer service centers. These included all 10 current service centers and 13 of the 35 locations where collection and/or taxpayer services were conducted by telephone. The 23 locations chosen and the 21 locations where telephone operations are to be discontinued are listed in appendix I.

In January 1994, IRS initiated the Fresno Service Center as the prototype site for experimenting with customer service operations at a service center, and the Nashville district as the prototype for creating a customer service center out of existing taxpayer services (TPS) and automated collection service (ACS) operations. According to IRS' implementation plan, these two types of centers would follow different paths of development, but would eventually come to perform most of the same functions. In late 1994, IRS began customer service operations on a small scale at the Cincinnati, OH, and Brookhaven, NY, Service Centers, and in early 1995, at the Kansas City, MO; Andover, MA; and Philadelphia, PA; Service Centers.

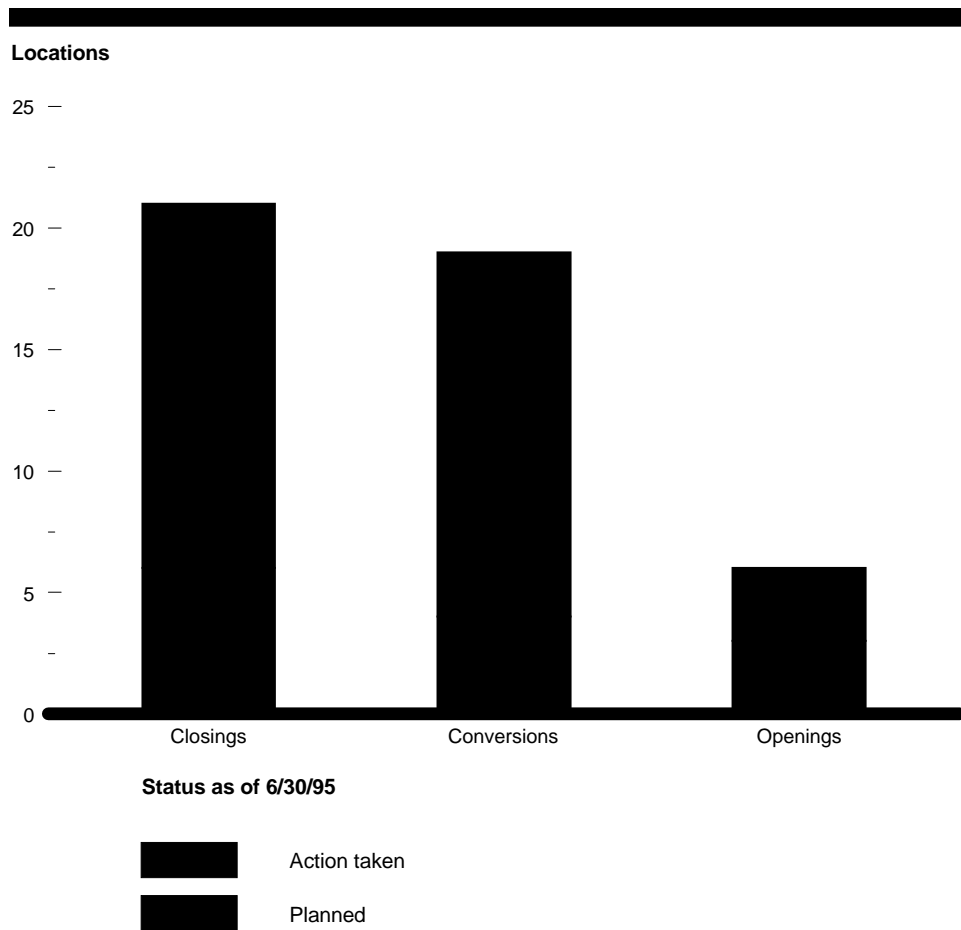
Transition to Customer Service Has Just Begun

IRS' transition to the customer service vision is proceeding more slowly than originally foreseen. The 1993 Business Plan estimated that 10,000 of the eventual 22,240 customer service employees would be on site by the end of fiscal year 1996, with centers fully operational in 2001. While IRS still plans to begin operations at all 23 locations by the end of 1996, the scope of their work will be limited, and current plans call for about 5,000 staff in place. IRS now expects full transition to occur some time after 2001.

Several indicators of IRS' progress in reorganizing for customer service are summarized as follows:

- IRS intends to set up 23 customer service centers, with staffs varying from 186 to 2,609. Each center requires site preparation, acquisition of furniture and equipment, installation of software and telecommunications equipment, and training of staff. As of June 30, 1995, 7 centers had begun operations, 3 of which had fewer than 80 staff to perform very limited workloads.
- IRS intends to discontinue telephone operations at 21 locations, which include 14 taxpayer services telephone sites, 9 collection call sites, and 2 forms distribution sites. As of June 30, 1995, it had closed 6 locations. Figure 2 summarizes the reorganization of IRS telephone operations foreseen in the customer service plan.

Figure 2: IRS' Plans to Consolidate Telephone Operations

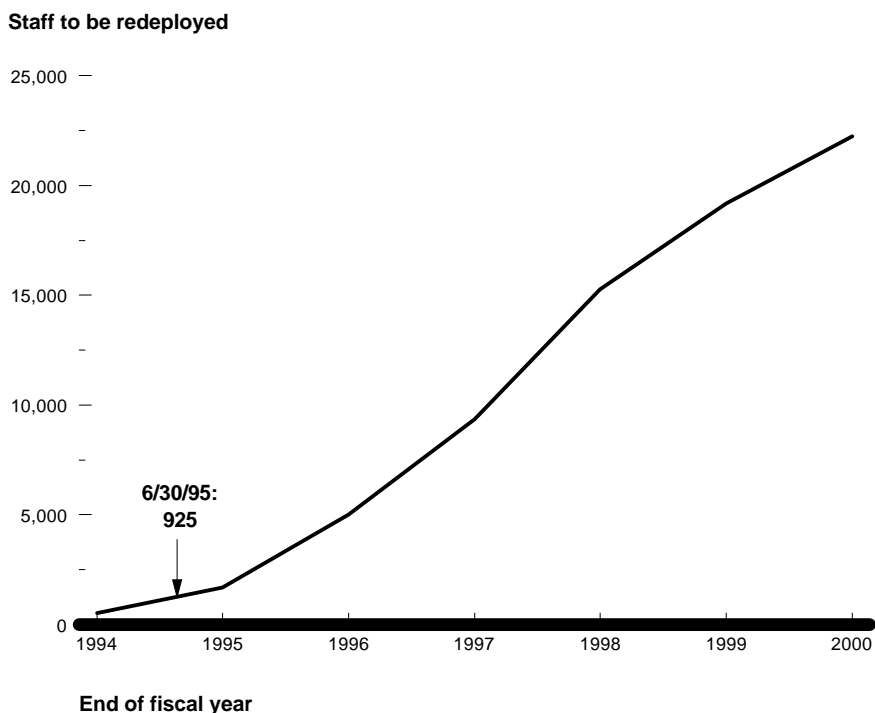


Note: Conversions are those locations where one or more existing telephone operations are being merged into a new customer service center.

Source: IRS documents.

- IRS intends to redeploy 22,240 staff to customer service centers. As shown in figure 3, about 925 of these staff were in place on June 30, 1995.

Figure 3: IRS' Plans to Redeploy Staff to Customer Service



Source: IRS' Customer Service Implementation Information, Nov. 1994.

- IRS has not yet estimated the volume of correspondence it expects to convert to telephone work. Only Fresno had attempted any conversion at the time of our review, and IRS had conducted a study to assess the effect of Fresno's initial efforts. The study concluded that these efforts may have reduced the service center's correspondence receipts related to selected notices by about 91,000, from 600,000 to 509,000. According to an IRS study, the Fresno adjustments branch recorded a 15-percent decline in incoming correspondence after IRS began including the customer service center's telephone number on outgoing notices. Fresno planned to expand its conversion efforts in 1995, and initial efforts were also planned at some new customer service centers.
- As a transitional approach to case processing, IRS is developing the ICP project. ICP is being developed in four increments. The first increment has been tested at Nashville, and the development and testing of the next two

increments are scheduled through 1997. Scheduling for increment four has not yet been determined. The system is to be modified for use with a planned new comprehensive database of taxpayer information.

Management Responsibilities for Customer Service Are Not Clear

IRS has been hampered to some extent in implementing its customer service plans by a lack of clarity in management responsibilities. This is reflected both at the senior management level for achieving the customer service vision and at lower management levels for specific TSM projects crucial to the vision. The lack of clarity at both management levels can be traced to IRS' current organizational structure, which does not fully conform to the plans for the customer service vision, but uncertainty about how to implement IRS' new core business systems management approach has also contributed to the confusion.³

IRS' officials have a plan that, if timely and thoroughly implemented, should clearly identify responsibilities at the senior management level.

An integral part of IRS' core business system approach is its requirement for designation of "owners" of each core business system and the underlying subsystems and processes. IRS has defined an owner as an individual assigned to be responsible and accountable for all the activities associated with a core business system, subsystem, or process. This responsibility often includes establishing business requirements, setting quality measures, and overseeing the development of new products and services intended to enhance the performance of the core business system in meeting taxpayers' needs.

IRS has designated owners for the six core business systems and for most of the subsystems and processes that comprise the majority of IRS' activities. Two of these core business systems, Managing Accounts and Ensuring Compliance, include the subsystems and processes that are to be

³A core business system, as IRS uses the term, refers to a closely related set of business processes, defined in terms of a customer's needs. For example, the Managing Accounts core business system includes all the steps involved in collecting taxpayer account information, maintaining it, and providing it to the taxpayer and IRS employees who need it. A few of these steps are (1) answering taxpayers' tax law questions, (2) processing taxpayers' returns, (3) sending taxpayers notices when errors are made and more taxes are due, and (4) answering taxpayers' questions about their accounts and making changes to the accounts in IRS' records.

transferred to customer service.⁴ Thus, the subsystems and processes that are to make up customer service are divided between two current IRS core business systems. (As the boundaries of the two functional organizations involved, Taxpayer Services and Compliance, are identical to the core business system boundaries, customer service responsibilities are split between the functional organizations also.)

Because IRS' current organizational structure does not match the structure planned for customer service, no owner for the emerging customer service organization has yet been designated. The result is that responsibility for carrying out the many projects and tasks necessary to work toward the goals of the customer service vision is divided between two IRS organizations, which are headed by two different senior managers called chiefs, who are also responsible for directing current returns processing, taxpayer services, examination, and collection activities.

The divided ownership of the components of the customer service vision also raises the question of how the new customer service organization that will emerge as more sites are rolled out will be managed. Traditionally, IRS offices that carried out the service activities being combined at customer service sites have been part of a district and/or regional office, with the National Office providing policy guidance and oversight. However, significant changes have recently been made in both the number and responsibilities of IRS' District and Regional offices. And, in some instances, components of IRS' National Office have been structured in such a way that they have greater control over field operations than has traditionally been the case. IRS' top leaders will have to decide which office will have responsibility for the emerging customer service organization and who is to lead it.

IRS officials are aware of the potential problems associated with the divided ownership of the components planned for customer service and plan to address them soon. The Customer Service Site Executive told us that a group of executives had been selected to study the issue and make recommendations on how to deal with it.

The issue we identified at management levels below the chiefs deals with IRS assigning process owners responsibility for seeing that specific

⁴IRS' traditional functional organization continues to exist along with the structure resulting from the core business systems approach. For example, the functional organization called Taxpayer Services is synonymous with the Managing Accounts core business system and their organizational boundaries are identical. Compliance, the other functional organization involved in customer service, is synonymous with the core business system called Ensuring Compliance and this functional and core business system pair also have identical boundaries.

products and services needed to further the customer service goals are successfully carried out and making sure process owners who have been assigned effectively carry out their responsibilities. Assigning process owners at the operational level has been difficult because there was confusion about who they should be and what their specific roles and responsibilities should be, especially in activities involving more than one core business system.

IRS did not assign a process owner for its Voice Balance Due (VBD) interactive telephone system until late in its development, thus risking the need for changes late in the development process.⁵ The VBD system cuts across the Managing Accounts and Ensuring Compliance core business systems. IRS officials told us that in cases where core businesses overlap there has been confusion about who the owner should be. In the case of the VBD system, Managing Accounts personnel told us they owned it, but because the system includes collection activities, the Customer Service Site Executive's Office believed the system belonged to Ensuring Compliance. However, the Director of Ensuring Compliance said that his office was not the owner of the project, although it had been involved.

IRS officials in the Telephone Routing Interactive System (TRIS) Project Office, the developer of the new telephone systems, told us that they needed to have process owner input for the VBD quality measures so that they could plan and collect the management data needed to measure the system's performance. TRIS officials also told us they did the best they could to determine the management data needed for the pilot test.

Near the end of the pilot test, in June 1995, IRS assigned the Assistant Commissioner for Taxpayer Services—a process owner—responsibility for all the interactive systems, including the VBD. This was over 2 years after the TRIS Project Office began the design and development of the VBD. As a process owner, the Assistant Commissioner for Taxpayer Services is responsible for coordinating the requirements and overseeing the development for all interactive telephone systems, including those that involve more than one core business system. Although IRS officials told us the VBD system was working well, they agreed that owners should be clearly designated early in the design of systems to make sure they will meet the needs of the customer service sites and the taxpayers who will use them.

⁵VBD is one of 30 interactive telephone systems being developed by IRS. This system is intended to allow eligible taxpayers to establish an installment agreement for taxes due without contacting an IRS customer service representative.

In the case of two other interactive telephone systems, the Refund and Location systems, officials in the Managing Accounts Core Business System assumed the role of owner, but did not provide the TRIS Project Office with timely input in developing quality measures. Quality measures are important because IRS plans to use the measures to determine the success of the new systems and whether to implement them in the field. To avoid delays in development, the TRIS Project Office established quality measures and began testing the systems based on those measures. About 3 weeks into the 30-day test period, the owners required that additional measures be tested, and the pilot period was extended for at least 30 days. Managing Accounts officials who worked on the quality measures said that they wanted to be involved with TRIS earlier, but that their ongoing workload prevented them from doing so.

IRS' top management has not made clear the criteria for selecting owners and what their roles and responsibilities are to be. This is particularly important in situations where TSM projects such as the interactive telephone systems involve more than one core business system.

Challenges Facing IRS

In reviewing IRS' early progress toward its customer service vision, we identified four important challenges that IRS must cope with and which we intend to monitor: (1) how to manage the transition to a substantially different organization while meeting ongoing workload demands, (2) how to define the responsibilities of customer service representatives to achieve a successful balance of generalization and specialization, (3) how to realize the expected benefits of new technology, and (4) how to measure success and balance multiple workload goals in the new centers.

Managing Transition to Customer Service Centers While Meeting Ongoing Workload Demands

One of the challenges IRS faces will be managing the transition to the customer service vision while continuing to meet the ongoing workload demands of answering taxpayer inquiries, managing taxpayer accounts, and collecting unpaid taxes. Each group of employees who are redeployed as customer service representatives requires classroom and on-the-job training before the group can assume its share of the workload. Classroom training time for recent start-up operations has varied from 5 to 9 weeks, depending on the prior experience of employees. An IRS official responsible for customer service did not know at the time of our review how much training would be needed for the full scope of a customer service representative's responsibilities.

IRS intends to gradually close telephone operations at 21 locations through 1999, in the meantime keeping them adequately staffed to handle their share of the ongoing workload. In the spring of 1995, concerned about premature attrition at the sites scheduled for closing, IRS responded by hiring temporary employees who do not have redeployment rights.

Determining the Scope of Customer Service Representatives' Responsibilities

The customer service representative position has potentially very broad responsibilities, involving such things as (1) answering some tax law questions, (2) soliciting information from taxpayers and adjusting accounts, (3) helping taxpayers arrange payment plans, (4) contacting taxpayers to obtain payments, and (5) answering calls from taxpayers who have been subject to collection actions. Experience at the two prototype centers demonstrated the pitfalls of expecting too much too soon of the representatives.

Nashville, which has both taxpayer services and automated collection call sites, tried to achieve maximum versatility of the customer service representatives in its prototype by creating a position with customer service expertise in collection work, taxpayer account work, and tax law matters. This involved cross training or "blending" some of the employees from the two call sites. After experiencing some accuracy and productivity problems, Nashville adopted less ambitious goals for blending functions, returning to a division of responsibility among its customer service representatives.

Fresno's prototype, based at a service center, focused primarily on responding to some of the service center's written inquiries by telephone. It also tried to broaden its workload by accepting some tax law inquiries from neighboring taxpayer services sites. However, although the customer service representatives received some training in tax law, they nevertheless experienced difficulties with the tax law questions, and Fresno has since discontinued this workload.

While IRS intends that the case processing software it is developing will provide guidance to customer service representatives, its expectations of them will nevertheless be substantial. In training and assigning work to them, IRS will have to find a balance between generalization and specialization. Expecting each representative to handle any issue that comes along could result in many mistakes. On the other hand, too much division of responsibility could undermine the flexibility needed for

efficient operations and the goal of providing one-stop service to taxpayers.

IRS' task is complicated by the redeployment understanding it reached with NTEU. One of the considerations in filling customer service positions is that preference must be given according to the seniority of employees whose jobs will be adversely affected by reorganization. While some of these employees work at the current taxpayer services and collection call sites, more than half are in service center positions that do not involve telephone interaction with taxpayers. Much of the workload encountered will be new to these employees, as well as the environment of working by telephone. IRS found that many of the employees who exercised redeployment rights for the initial customer service start-up operations lacked relevant experience and needed considerable training.

Success in Customer Service Depends on Success With Information Technology Projects

The potential effectiveness of customer service centers will depend considerably on the successful application of information technology. IRS' vision for customer service relies directly on two TSM projects, TRIS and ICP, and indirectly on several others, such as Electronic Filing and the Document Processing System.

Telephone Routing Interactive Systems

IRS is installing new telephone equipment that greets callers with recorded messages. Taxpayers are able to choose from menus to route themselves to the appropriate source of assistance. This equipment allows management to monitor call volumes on specific subjects and adjust staffing to reduce waiting time. In addition, IRS is developing interactive systems that should allow taxpayers to accomplish various actions without speaking to a customer service representative.

This equipment has been in use at some taxpayer services sites in recent years. IRS experience has shown that a large majority of callers do use the menus to route their calls, thus reducing the need for a group of representatives known as "screeners" who would identify the nature of a taxpayer's inquiry and transfer it to the appropriate area for resolution. However, IRS studies have also shown that the success of such programs is very sensitive to menu design. In 1994, for example, some features of the menus increased the amount of time callers spent listening to menu options and also increased the percentage of callers who opted for a live receptionist instead of routing themselves. IRS is attempting to refine its menus to minimize these problems.

IRS anticipates using interactive programs for about 30 different purposes. As of June 30, 1995, two programs had been in use for some time nationwide: interactive menus for self-routing of calls and recorded tax law information/refund status (Tele-Tax). Testing was completed on three additional programs in June 1995 at the Nashville prototype and are now being evaluated. They include one to be used by taxpayers who receive notices of taxes owed. IRS plans to offer taxpayers who select this option a chance to arrange for an extension of their payment due date or an installment payment plan.

IRS expects that these interactive programs will be able to handle many routine taxpayer inquiries and transactions without assistance from a customer service representative. This would give representatives more time to handle more complicated inquiries and work on compliance issues, such as unreported or underreported income, improperly completed returns, and unpaid taxes. IRS has projected that 45 percent of calls can be satisfied by interactive programs. However, if programs are not well designed, or taxpayers are simply reluctant to use them, representatives would need to field many more calls than anticipated, and productivity gains could be reduced.

Integrated Case Processing

IRS eventually wants its customer service representatives to interact with a consolidated database. In the meantime, IRS is developing ICP to overcome the fragmentation of taxpayer data in its current systems. ICP is being developed in four increments that will progressively expand the capability of representatives to interact with the databases for taxpayer accounts, collection, examinations, and underreported income. ICP is to provide a series of questions and prompts to help representatives work through various kinds of taxpayer issues, as well as make queries and updates to account data with assurance that the data will be reconciled among the different databases. Under ICP, IRS also intends to develop a workload management system that would allocate representatives' time to various functions, create electronic case folders, and assign cases to representatives who have been certified to handle the issues involved.

As of June 30, 1995, the first increment of ICP had been piloted at Nashville, allowing customer service representatives to access existing databases from a single terminal. Through 1998, IRS plans to develop, test, and install the remaining increments, as well as train representatives in their use. ICP includes plans to transfer IRS data from its existing separate databases to its eventual consolidated database. Customer service productivity would

be reduced if ICP fails to deliver the data access and analytical capabilities envisioned for customer service representatives.

Submission Processing Projects Also Will Affect Customer Service

IRS' projections of customer service workload are dependent on certain TSM projects not directly used by customer service centers, such as electronic filing of returns and electronic scanning of paper returns. Electronically filed returns contain few errors compared to paper returns and thus should generate fewer problems to be resolved by customer service representatives. Similarly, electronic scanning through the Document Processing System is expected to reduce data input errors in processing paper returns. IRS expects these two projects to replace most of the manual processing of tax returns and greatly reduce errors.

As of June 30, 1995, results of these projects were somewhat disappointing. The number of electronically filed returns received was running 17.8 percent below that of the same period in 1994 (11.1 million compared to 13.5 million in 1994). Attempts to use scanning equipment to process the simplest tax returns were also not succeeding as planned. The final outcome of these projects will not be known for several years. To the extent that the projects fail to achieve projected results, the follow-up workload generated for customer service centers will be greater than anticipated. This would mean that estimated savings in staffing and costs may not accrue to the degree that IRS had envisioned. In response to our attempt to learn how shortcomings with certain TSM projects could affect customer service, IRS officials told us that a statement of work has been written to contract out for a comprehensive analysis of the costs and savings associated with customer service.

Measuring Success and Managing Competing Workload Demands in Customer Service Centers

IRS has not determined all of the indicators by which success in customer service centers will be measured, although it has committed itself to goals of 95-percent initial contact resolution and near-100 percent accessibility.⁶ The customer service centers are to combine work that is currently done in several different organizational components of IRS. IRS has recognized that simply transplanting the workload priorities and performance measures of these components to the new centers would be inappropriate. It intends to develop work plans and performance measures relevant to the new organizations.

⁶IRS' accessibility measure of 100 percent is defined as every taxpayer who calls IRS will get through on the first telephone call, and no taxpayer will get a busy signal except during limited peak periods.

Without appropriate performance indicators in place, IRS has only physical indicators, such as sites established, persons redeployed, and technological programs installed to measure progress toward the customer service vision. While useful, these indicators do not measure the value of the reorganization and may not alert IRS to developing problems. Developing meaningful indicators will not be easy because IRS is attempting to achieve qualitative as well as quantitative change.

Managing the workload of customer service centers will also be a significant challenge. We believe that the new centers will likely feel the tension of competing demands to answer inquiries, adjust accounts, follow up on examinations, and collect unpaid taxes. If taxpayers are dissatisfied with accessibility and waiting times, pressure will build to answer more calls at the expense of compliance and collection activities. IRS will no longer have organizational walls to protect these different functions and will have to balance them within a single organizational structure. IRS is counting on technology to cope with such problems. Under ICP, IRS intends to develop an automated Workload Management System (WMS) that will provide the capabilities to create and manage cases, track and control correspondence, and maintain employees' skills inventories. ICP is in an early stage of development, however, and the requirements for WMS are still being defined.

Conclusions

IRS has undertaken an ambitious plan to reorganize and downsize its operations that provide service to taxpayers, a plan it has just begun to implement. IRS officials have recently acknowledged that the transition will last beyond its planned goal of 2001. It is too soon to conclude whether IRS will eventually accomplish its goals, but the gap between current operations and its customer service vision is very great.

A lack of clarity in management responsibilities has, to some extent, hampered IRS in the early stages of implementing its customer service vision. This lack of clarity exists both at the senior management level and at the lower management levels for specific TSM projects crucial to the vision. The reasons for this are in part related to IRS' current organizational structure, but are also due to problems in adjusting to a new management structure based on the core business system approach. At the senior management level, IRS has not designated an owner to be responsible and accountable for all the work units that will be part of customer service and the many projects that must be successfully completed to make the

customer service vision a reality. IRS officials plan to address the need for an owner for customer service at the senior management level.

At lower management levels, the process owner was assigned late for overseeing an interactive telephone system that involved both the Managing Accounts and Ensuring Compliance core business systems. Also, in two other instances owners for such systems had assumed ownership roles, but had not adequately carried out their responsibilities.

The problems we identified have not had a serious adverse effect to date because IRS' implementation of the customer service vision is still in the early stages. However, failure to deal with them as soon as possible could delay the development and implementation of new products and services needed for customer service.

Finally, to achieve its customer service goals, IRS will have to overcome a number of challenges involving managing the transition to a new organization while meeting ongoing workload demands, defining customer service representatives' responsibilities, realizing the benefits of new information technology, and developing effective ways to measure performance in the new centers.

Recommendations

We recommend that the Commissioner of Internal Revenue

- clarify the criteria for assigning process owners responsibility for TSM projects when they involve more than one core business system;
- define process owners' roles and responsibilities for TSM projects involving more than one core business system; and
- emphasize to those designated as process owners the need for them to provide the business requirements necessary to develop, test, and implement new customer service products and services.

Agency Comments and Our Evaluation

We obtained oral comments on a draft of this report from senior IRS officials in a meeting on August 21, 1995. IRS officials present included the Assistant Commissioner for Taxpayer Service; the Customer Service Site Executive; the Director, Taxpayer Service Design and Review; and the Director, Collection Customer Services. These comments were supplemented by a memorandum clarifying remarks made during our discussion. IRS officials said that the report was an accurate assessment of the progress to date for achieving IRS' customer service vision. IRS officials

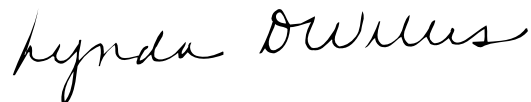
agreed with our recommendations, but suggested wording changes in the recommendations to clarify their intent. We have made the wording changes the IRS officials suggested.

In their comments on a draft of this report, IRS officials pointed out that a process owner—the Assistant Commissioner for Taxpayer Services—had been assigned ownership responsibility for all of the interactive telephone systems in June 1995. They said that the Assistant Commissioner’s responsibilities included coordinating requirements and overseeing the development of interactive telephone systems that involved more than one core business system. Assigning a senior official ownership responsibility for all of the interactive telephone systems should help to avoid the kinds of problems we identified with those systems.

The IRS officials said that, to address our concerns on a broader basis, the Modernization Executive—the official who has overall responsibility for IRS’ TSM efforts—has been charged with directing, prioritizing, and coordinating any projects dealing with modernization, including those that support Customer Service. The IRS officials also said core business system owners have responsibility for identifying process owners for processes within their core business system. However, they emphasized that the Modernization Executive is responsible for making sure that any change efforts that involve more than one core business system, including TSM projects, are not adversely affected by the overlap. We believe that assigning the Modernization Executive responsibility for ensuring that TSM projects involving more than one core business system are not adversely affected by the overlap should, if properly carried out, accomplish the intent of our recommendations.

We are sending copies of this report to other interested congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in appendix II. If you or your staff have any questions concerning the report, please call me on (202) 512-9110.

A handwritten signature in cursive script that reads "Lynda D. Willis".

Lynda D. Willis
Associate Director, Tax Policy and
Administration Issues

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Abbreviations

ACS	automated collection service
ICP	Integrated Case Processing project
IRS	Internal Revenue Service
NTEU	National Treasury Employees Union
TRIS	Telephone Routing and Interactive System
TPS	taxpayer services
TSM	Tax Systems Modernization
VBD	Voice Balance Due
WMS	Workload Management System

IRS Locations Affected by the Customer Service Reorganization

Table I.1: Locations Chosen for Customer Service Centers

Location	Scheduled to begin	Current Operations			
		Service center	Taxpayer service	Automated collection	Forms distribution center
Fresno, CA	1/94	x			
Nashville, TN	1/94		x	x	
Cincinnati, OH	11/94	x	x		
Brookhaven, NY	12/94	x			
Kansas City, MO	3/95	x			
Andover, MA	4/95	x	x	x	
Philadelphia, PA	6/95	x	x	x	
Austin, TX	7/95	x			
Atlanta, GA	8/95	x	x	x	
Ogden, UT	9/95	x			
Cleveland, OH	1/96		x	x	
Denver, CO	1/96		x	x	
Indianapolis, IN	1/96		x	x	
Pittsburgh, PA	5/96		x		
St. Louis, MO	5/96		x	x	
Portland, OR	6/96		x		
Richmond, VA	6/96		x		x
Baltimore, MD	7/96		x	x	
Jacksonville, FL	7/96		x	x	
Memphis, TN	8/96	x			
Buffalo, NY	TBD ^a		x	x	
Dallas, TX	TBD		x	x	
Seattle, WA	TBD		x	x	

^aTo be determined.

Appendix I
IRS Locations Affected by the Customer
Service Reorganization

Table I.2: Locations Where Telephone Operations Will Be Discontinued

Location	Current Operations		
	Taxpayer service	Automated collection	Forms distribution center
Chicago, IL	x	x	
Detroit, MI	x	x	
Houston, TX	x	x	
Newark, NJ	x	x	
Anchorage, AK	x		
Brooklyn, NY	x		
Des Moines, IA	x		
El Monte, CA	x		
Honolulu, HI	x		
Milwaukee, WI	x		
Oakland, CA	x		
Omaha, NE	x		
Phoenix, AZ	x		
St. Paul, MN	x		
Kearny Mesa, CA		x	
Laguna Niguel, CA		x	
New York, NY		x	
Oklahoma City, OK		x	
San Francisco, CA		x	
Bloomington, IL			x
Sacramento, CA			x

Note: San Juan, PR, a present collocated ACS/TPS call site, is not considered 1 of the 23 selected customer service sites nor will its telephone operations be discontinued. It will be considered a specialized call site working on international tax matters.

Source: IRS data.

Major Contributors to This Report

**General Government
Division, Washington,
D.C.**

John M. Lovelady, Assistant Director, Tax Policy and
Administration Issues
Robert L. Giusti, Assignment Manager
Monika R. Gomez, Evaluator

**Cincinnati Field
Office**

Kenneth R. Libbey, Evaluator-in-Charge
Robert I. Lidman, Core Group Manager

Atlanta Field Office

Lorelei H. Hill, Site Senior

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