

April 1999

IRS CUSTOMER SERVICE

Management Strategy Shows Promise But Could Be Improved



General Government Division

B-279958

April 30, 1999

The Honorable Amo Houghton
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

As requested, this report discusses efforts to improve customer service at the Internal Revenue Service (IRS)—a major concern at IRS and in Congress. IRS has an ambitious agenda of initiatives to improve customer service. This agenda came from provisions of the IRS Restructuring and Reform Act of 1998¹ and other legislative mandates, recommendations of an IRS Customer Service Task Force, and suggestions received from the Commissioner's discussions with IRS employees across the nation. Collectively, the initiatives are intended to address concerns over the quality of IRS' customer service and change the way the agency treats taxpayers.

The Commissioner has noted that achieving customer service improvements within the next year or two is a high priority. A key reason is to show near-term progress and successes to taxpayers, employees, and Congress, while they await the results of other longer term changes in organization and information systems.

The objective for our examination of IRS' customer service improvement initiatives was to assess the strategy for managing the initiatives' implementation, including whether IRS had developed information on the initiatives' expected costs and benefits, milestones and completion dates, and performance measures to gauge results. To provide some perspective on the type of work under way and progress being made, we also reviewed 25 selected individual initiatives and report our results in appendix II.

We requested comments on a draft of this report from the Commissioner of Internal Revenue. We received written comments, which are reprinted in appendix III.

Results in Brief

IRS' strategy for managing the implementation of its customer service initiatives shows promise but could be improved. IRS' basic approach was

¹Public Law 105-206.

to establish a central office, the Taxpayer Service and Treatment Improvement Program (TSI), in Washington, D.C., and form a high-level steering committee, chaired by the Commissioner, to oversee the implementation of improvement initiatives that were being carried out by many different IRS and Treasury offices. TSI and the steering committee were established in January 1998. In its early months, TSI had problems carrying out its responsibilities. Officials attributed most of the problems to the large number of potential initiatives—more than 5,000—on the agenda.

By January 1999, TSI and the steering committee had taken steps to (1) prioritize the initiatives, reducing the number to 157 primary initiatives; (2) align these initiatives to IRS' newly established strategic goals and objectives; and (3) assign accountability for their completion to specific executives. Also, TSI provided offices involved in day-to-day implementation of individual initiatives with on-line access to the central information database it had developed to categorize and monitor progress on the initiatives.

IRS could further improve its customer service management strategy. By January 1999, TSI had identified a need for information on milestones and completion dates for each primary initiative and asked offices implementing individual initiatives to input this information into its database. However, TSI had not assessed the need for information on (1) expected costs and benefits and (2) performance measures. Managers in a few of the offices implementing initiatives we reviewed had documented all these types of information on their own, but this information was not being used by IRS' leadership.

As our past reports have shown, not only do high-performing, results-oriented organizations set priorities, align activities with mission-related goals and objectives, and assign accountability, but they also develop and use information to monitor progress and evaluate results.² Information on costs and benefits, milestones and completion dates, and performance measures is critical to successfully managing for results. Although it can be difficult to develop, this information provides agencies with tools they can use to monitor and evaluate how efficiently and effectively programs are achieving their purposes. It is also important to help determine

²Numerous reports by us in recent years have discussed the importance of strategic planning in federal program management. A major report addressing these issues was Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

whether public resources have been used to achieve the purposes for which they were appropriated.

We make recommendations at the end of this letter to the Commissioner of Internal Revenue for addressing certain issues identified during our review.

Background

In 1997 and 1998, the quality of service IRS provided to taxpayers was identified as a problem both in and outside IRS. The Vice President's National Performance Review looked within and across federal agencies at how existing programs could operate more efficiently and effectively and what activities the government should be doing. After hearing from citizens, legislators, and others that IRS needed to improve in meeting the needs of taxpayers, NPR commissioned a Customer Service Task Force. The Task Force made more than 200 recommendations for customer service improvements.³ The Senate Finance Committee held hearings during which taxpayers, IRS employees, and others testified about instances of taxpayer abuse and mistreatment.⁴ At the same time, a new Commissioner received thousands of improvement suggestions from meetings held with employees across the nation.

The Commissioner was also formulating long-term plans for restructuring IRS according to the functional groups of taxpayers it serves (e.g., wage earners, small businesses, and large corporations) in accordance with the IRS Restructuring and Reform Act of 1998. A major information systems modernization was under way, as were efforts to make IRS' systems Year 2000 compliant.⁵

To meet our reporting objective, we reviewed our prior work and IRS documents and interviewed cognizant officials about the overall strategy for managing the customer service improvement efforts and about activities related to the implementation of the selected individual initiatives. We requested comments on a draft of this report from the Commissioner of Internal Revenue. We received written comments, which are discussed near the end of this letter and reprinted in appendix III. We did our work primarily at IRS headquarters in Washington, D.C., between April 1998 and January 1999, in accordance with generally accepted

³Reinventing Service at the IRS, IRS Publication 2197 (Mar. 1998).

⁴Senate Report No. 105-174 (Committee on Finance).

⁵IRS systems, like many others in government and the private sector, use two-digit date fields. If unchanged, beginning January 1, 2000, they would interpret 2000 as 1900 and thus seriously jeopardize critical tax processing and collection operations.

government auditing standards. (See app. I for more details on our scope and methodology.)

IRS Strategy for Managing Customer Service Improvements Shows Promise But Could Be Improved

IRS established a promising strategy for managing the implementation of the agency's customer service initiatives. The development and use of management information on costs and benefits, milestones and completion dates, and performance measures would strengthen its management strategy.

A Program Office and Steering Committee Managed Implementation

IRS' basic management strategy was to establish a central office, TSI, in January 1998 to manage the overall implementation of customer service improvements that were being carried out by many different IRS and Treasury offices. The head of TSI was authorized to build a staff and create a strategy for the coordinated review and implementation of the more than 5,000 improvement initiatives IRS received.

At the same time the Commissioner established TSI, he created an executive steering committee, with himself as chair, to oversee the implementation activities. The steering committee was to provide decisions on matters affecting the implementation of the recommended initiatives and was to ensure that initiatives being implemented were consistent with IRS' overall business strategy.

We have found that this kind of centralized coordination of crosscutting programs is an effective management strategy. It can be used to identify program overlap, duplication, or fragmentation.⁶ Coordination also helps to ensure that program efforts are mutually reinforcing.

TSI Created a Database

By April 1998, the 12-person TSI staff had created a database of the initiatives and begun using it to categorize the initiatives on its agenda. TSI grouped the recommendations into functional areas, identified sources of suggestions, and linked similar suggestions from different sources together. The database also had fields for information on the priority level, impact, and cost of implementing initiatives—data that could potentially be used to monitor implementation and facilitate effective management and oversight of work on initiatives. According to TSI officials, however, this information was not routinely completed and updated by offices implementing the initiatives.

⁶Managing for Results: An Agenda To Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD- 98-228, Sept. 1998).

TSI Had Early Management Problems

Early actions to develop the database notwithstanding, TSI had problems in carrying out its responsibilities during its first months of operation. Officials said that the problems arose in large part from the sheer volume of improvement initiatives on its agenda. The TSI staff was not able to evaluate and prioritize the more than 5,000 mandates, recommendations, and suggestions that came from sources including Congress, task force groups, and individual employees and taxpayers. TSI officials said that efforts to determine accountability for work, especially when two or more offices shared responsibility, and to track the progress being made on individual initiatives were also hampered by the large volume of initiatives.

Prioritization Process Was an Important First Step in Managing Implementation

As of January 1999, IRS had taken several actions to address its problems. Top IRS management established criteria for prioritization in September 1998. To determine what initiatives to implement in the short term, officials said that IRS criteria were that legislative mandates were top priorities and that all initiatives selected were to show taxpayers, employees, and external stakeholders (e.g., NPR and Congress) that IRS was changing. In January 1999, IRS leadership approved a list of 157 initiatives as primary customer service improvement actions, drastically reducing the number to be managed by TSI in the short term.

The initiatives selected were organized under 19 strategic categories (e.g., protect taxpayer rights, improve and increase the use of education and delinquency prevention techniques, and create an IRS culture that values employees and rewards top-quality service). An “owner”—an IRS executive—was assigned as the official accountable for each strategic category and the initiatives being implemented within it. Each strategic category contributed to one of IRS’ three strategic goals: (1) service to each taxpayer; (2) service to all taxpayers; or (3) productivity through a quality work environment.

This prioritization process was a necessary first step to setting realistic goals for progress based on IRS’ capacity to take on additional responsibilities. It reduced the number of improvement actions to a manageable level and established accountability for carrying out the work. It also made it feasible to expect that TSI could track the progress being made in implementing the priority initiatives.

TSI also made improvements to its database that gave offices implementing the individual initiatives on-line access to information. This change was designed, in part, to make it easier and more efficient to track progress being made on individual initiatives.

Management Strategy Could Be Improved

IRS' management strategy could be improved. As our review was being completed, TSI had requested that the owners of each primary initiative enter an "action plan" into the database with information on start and completion dates and milestones. As of March 1999, TSI was working with managers of individual initiatives to finalize the action plans. TSI officials said that they expected to use the action plans to monitor progress being made and to keep current on the status of the initiatives. However, IRS had not assessed the need for information on expected costs and benefits and how results of the initiatives were to be measured.

TSI officials said that consideration of how to systematically collect standard information on costs and benefits of the initiatives and plans for measuring their results was in an early discussion stage. TSI had concentrated its efforts on prioritization and then developing information on initiatives' key milestones and completion dates. It had not developed plans to seek information on costs, benefits, or results for individual initiatives.

As of January 1999, managers for a few of the 25 initiatives we reviewed had documented management information on costs and benefits, milestones and completion dates, and anticipated results. For 19 of the 25 initiatives we reviewed (see app. II), we asked for documentation of this management information. These 19 initiatives were in process and had progressed past the planning and design phases.

We found that 11 of the 19 initiatives had written plans with milestone dates for reaching key points and an estimated final completion date. Cost-benefit analyses were done for eight initiatives, and written documentation of performance measures to gauge expected results were done in seven instances.

Managers on individual initiatives provided a number of reasons why some types of management information were not developed. For example:

- The manager for an initiative to administer preemployment screening assessments to applicants for customer service positions said that IRS leadership wanted the screening assessments to be used for hiring for the 1999 filing season. She noted that there was not enough time to prepare formal project management documents before that hiring began in September 1998.
- The manager of an initiative to provide tax information to small start-up businesses jointly with the Small Business Administration said that it was not possible to track individual taxpayers who received the information to

directly measure how receiving it improved their compliance with tax laws.

- The manager of an initiative to provide customer service training to all IRS employees said that since the commitment to this training was made by the Acting Commissioner to the Senate Finance Committee, a cost-benefit analysis was not necessary to decide whether the project should be completed.

Our work evaluating the implementation of the Government Performance and Results Act has documented the difficulties that agencies face in developing management information, particularly measures of results. Extenuating circumstances, such as short time frames and difficulties identifying benefits and costs, may even preclude the development of management information in some instances. Moreover, factors such as scope and complexity can drive the level of detail necessary. For example, one would not expect to see as much detail in a plan to study why people hang up when they use an automated telephone menu as in a plan to begin using complex new call router technology.

However, our work has also shown that public sector agencies can and do overcome obstacles to successfully implement strategic management principles and become more results-oriented. Such efforts have resulted in improved performance. For example, the National Oceanic and Atmospheric Administration began to measure the extent to which it could increase the advance notice it gave the public before severe weather events, instead of counting the number of forecasts it made. The emphasis is significant because having more time to prepare should lessen the loss of life and property. The Coast Guard's Office of Marine Safety, Security, and Environmental Protection improved its mission effectiveness with fewer people and at lower cost. It did so by giving field commanders greater authority and by investing in activities and processes that went most directly to the goal of reducing risks on the water.⁷ Measuring performance allows agencies to track the progress they are making toward their goals and gives managers crucial information on which to base their organizational and management decisions.

No picture of what government is accomplishing with the taxpayers' money can be complete without management information on benefits and costs. It provides agencies with tools to determine whether they have used public resources economically, efficiently, and effectively to achieve the purposes for which they were appropriated. Viewing program performance

⁷ Executive Guide, GAO/GGD-96-118.

in light of costs can be important on at least two levels. First, it can help Congress make informed decisions. Second, it can give taxpayers an accounting of what government is providing in return for their tax dollars.

Conclusions

As of January 1999, IRS had established priorities, reduced the number of initiatives to a manageable level, aligned them with its strategic goals and objectives, and assigned accountability for individual initiatives. IRS also improved its ability to monitor and track individual initiatives by providing on-line access to its database and by asking managers responsible for work on individual initiatives to input information on milestones and completion dates.

As IRS moves forward on its customer service improvements, we believe its strategy for managing the initiatives would be enhanced by having information on expected costs and benefits, milestones and completion dates, and performance measures. IRS has already linked the initiatives to its strategic goals and objectives and begun to collect information pertaining to timeliness. However, it has not determined how much the initiatives are likely to cost, what benefits are expected to be achieved, and how results will be measured. We recognize that the level of detail that might be needed likely would vary from initiative to initiative.

The TSI database could serve as a tool not only to monitor implementation, but also to facilitate effective management and oversight. Consistent information—including cost, benefit, and performance results data, provided and kept current through on-line access—could be the link between project teams, IRS' leadership, and other stakeholders.

Recommendations

We recommend that the Commissioner of Internal Revenue develop an approach and provide guidance to managers for determining the appropriate cost and benefit information for the customer service initiatives and for measuring the results of the initiatives in relation to IRS' customer service objectives.

We also recommend that the Commissioner of Internal Revenue enhance the TSI database to include this management information for the use of IRS' project teams, leadership, and other stakeholders.

Agency Comments

We provided a draft of this report for comment to the Commissioner of Internal Revenue. The comments are summarized below and reproduced in appendix III.

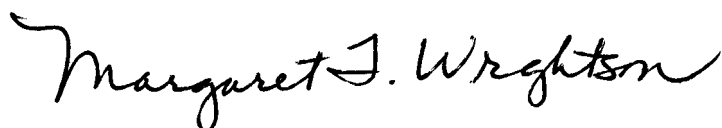
IRS said that our report was a fair and balanced assessment of its strategy for implementing customer service improvements—recognizing both the strengths of the strategy and how it could be improved. IRS noted that the report indicated our willingness to go beyond identifying problems and to collaborate in developing pragmatic solutions.

IRS agreed that it needed to address the two recommendations we made for enhancing its customer service improvement strategy. It noted that some steps were already being taken to collect information on the expected costs and benefits of improvement initiatives, and it recognized that the design of relevant measures of results were also very important.

We are sending copies of this report to Representative William J. Coyne, Ranking Minority Member of your Subcommittee; The Honorable Robert E. Rubin, Secretary of the Treasury; The Honorable Charles O. Rossotti, Commissioner of Internal Revenue; and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of Alton C. Harris, Assistant Director. Other major contributors are listed in appendix IV. If you have any questions, please call me on (202) 512-9110 or Mr. Harris on (404) 679-1854.

Sincerely yours,



Margaret T. Wrightson
Associate Director
Tax Policy and
Administration Issues

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Abbreviations

IRS	Internal Revenue Service
NTEU	National Treasury Employees Union
OPM	Office of Personnel Management
TSI	Taxpayer Treatment and Service Improvement Office

Objectives, Scope, and Methodology

Objective

At the request of the Chairman of the House Subcommittee on Oversight, Committee on Ways and Means, we agreed to assess IRS' strategy for managing the implementation of its customer service initiatives—including whether IRS had developed information on expected costs and benefits, milestones and completion dates, and performance measures to gauge results. To provide some perspective on the type of work being done to improve customer service, we also agreed to provide information on the progress made on 25 initiatives. (See app. II.)

Scope and Methodology

To address this objective, we interviewed officials and reviewed documentation and our prior reports that addressed the importance of strategic planning in federal program management. We interviewed officials from TSI and the Customer Service Task Force at IRS headquarters. Using a standard set of questions, we also interviewed IRS officials responsible for implementing 25 of IRS' customer service initiatives. We asked them whether they developed and used selected project management information and what progress they were making in implementing the initiatives.

At 3-month intervals over the course of our review, we requested updates of a TSI database that organized and categorized the customer service initiatives. We received database updates in April 1998 and July 1998. In October 1998 and January 1999, TSI officials advised us that no status reports were available because IRS had temporarily suspended follow-up activities on the individual initiatives to focus on the prioritization of all initiatives. We did not independently verify the TSI database, but we did examine its accuracy for the 25 improvement initiatives that we included in our review.

We reviewed planning documents that had been prepared for 19 of the 25 initiatives. Work on these initiatives was in process and had progressed past the design and planning stages. We determined, and TSI officials agreed, that they were initiatives that would benefit from having management information on costs and benefits, milestones and completion dates, and performance measures to gauge results.

The 25 initiatives we selected for detailed review were chosen before IRS had prioritized its initiatives, reducing the number of primary actions to 157. They were all recommendations of the IRS Customer Service Task Force and were chosen to reflect a cross section of the major customer improvement efforts. Several initiatives were included that addressed improvements in telephone assistance and employee training because more than 70 percent of IRS' \$103 million in fiscal year 1999 appropriations

to implement customer service improvements was targeted for these two areas.

For each improvement area, we judgmentally selected initiatives to study based on their potential to have a positive impact on IRS' customer service. TSI officials agreed that all of the projects we selected were significant initiatives. (See app. II for a list of the initiatives we reviewed and information on the progress made in implementing them.)

Our review of the 25 initiatives recommended by the Task Force was not intended to assess IRS' overall progress in improving customer service. Rather, the analysis was to provide information on some of the work being done on initiatives recommended by the Task Force.

During our review, IRS approved a list of 157 initiatives as customer service improvements with the highest priority for implementation in the short term. We did not assess the prioritization criteria used.

We did our work primarily at IRS headquarters in Washington, D.C. We also interviewed an official in the IRS Southeast Region in Atlanta, GA, and we attended a training conference in Arlington, VA, to prepare IRS trainers to deliver new customer service training to employees.

On March 19, 1999, we provided a draft of this report for comment to the Commissioner of IRS. We received the Commissioner's written comments on April 12, 1999. They are reproduced in appendix III and discussed at the end of the letter.

IRS' Progress on 25 Customer Service Improvement Initiatives

Table II.1 shows the results of our review of progress made on 25 customer service improvement initiatives. In selecting the initiatives to review, we determined and TSI officials agreed that they had great potential for improving customer service.

Six of the 25 initiatives that we reviewed were closed as of January 1999. Sixteen initiatives were in process, and three had been deferred.

Initiatives were classified as closed because officials believed that they had completed work on them or they did not need to complete them. For example, the initiative to expand telephone serve to 7 days a week, 24 hours a day by January 1, 1999, was classified as closed because IRS had taken this action. The initiative to create a plan for effective alternatives to serve customers before closing a walk-in office was classified as closed because IRS did not plan to close any walk-in offices; thus, no plan for alternatives was needed.

Initiatives classified as in process included those in various stages of implementation. For example, an initiative in the early stages of implementation was the effort to improve the national distribution of information to IRS employees. An IRS official said that major improvements in the national distribution of information to IRS employees could not be achieved until all employees had access to computers and were on a standard computer network. While awaiting the required information systems upgrades, however, IRS started smaller scale projects to improve communication. These included issuing a newsletter containing information on IRS' modernization efforts to all employees. An initiative that was closer to full implementation was an initiative to assess the skills of IRS employees and train those with the most critical needs. Assessment instruments were developed and testing was underway for employees working in Customer Service, Collection, Examination, and Support Services. Some training had started to improve employees' skills as identified by the testing.

Initiatives were deferred because IRS determined that other projects had higher priorities or because timing was not appropriate for implementation. For example, IRS decided not to attempt to standardize the format and content of its written responses to taxpayers until it had completed an initiative that was under way to rewrite all of its notices.

Appendix II
IRS' Progress on 25 Customer Service Improvement Initiatives

Table II.1: Progress on 25 Customer Service Improvement Initiatives as of January 1999

Initiative	Status	Description of work done
Market Telefile aggressively to individual taxpayers.	Closed	Officials said that IRS' current practice of mailing Telefile information, rather than traditional tax filing packages, to taxpayers who are potentially eligible for Telefile is the most aggressive marketing strategy it could use.
In 1999, begin using new call router technology to provide information that is geared to specific customer needs, such as the tax implications of the sale of a house, retirement, or job change.	Closed	Officials said that the call router was implemented in December 1998, although IRS has plans for a number of enhancements to the system.
Before closing a walk-in office, create a plan for effective alternatives to serve customers.	Closed	Officials said that no further action was needed on this initiative because IRS does not plan to close any walk-in offices.
Establish a uniform set of leadership competencies for all levels of management.	Closed	Officials said that the Office of Personnel Management (OPM) revalidated a set of leadership competencies that federal agencies could use in their entirety or adapt as needed. IRS used the OPM model to develop its own model. It was used in 1998 as part of the selection process for new executives.
By January 1, 1998, expand telephone service to 6 days a week, 16 hours a day. By January 1, 1999, expand telephone service to 7 days a week, 24 hours a day.	Closed	Officials said that IRS implemented these actions in January 1999.
In 1999, work to enable taxpayers to file paperless returns by eliminating the need for mailing in W-2s and other forms for paper signature in a way that does not jeopardize law enforcement.	Closed	In February 1998, IRS started preparing a policy to guide its effort in this area, according to project officials. A pilot test is being conducted during the 1999 filing season on substitutes for signatures on electronically filed returns.
Use multiple strategies to reduce demand on the telephone lines, such as educating customers on when to expect refunds.	In process	IRS had several efforts under way to reduce demand on telephone lines. These included providing tax law assistance by electronic mail, improving the clarity of and reducing the number of notices, thereby reducing the need for taxpayers to call, and managing telephone calls away from live assistants and onto automated systems where possible.
Complete a study of why people hang up when they use the automated menu and recommend needed modifications to current plans.	In process	IRS had the study under contract, with an expected delivery in June 1999.
Assess the skills of IRS employees and train those with the most critical needs.	In process	Assessment instruments were developed and testing was under way for employees working in the Customer Service, Collection, Examination, and Support Services areas. Some training to improve employees' skills as identified by the testing had begun.
Create a skills bank that identifies the skills of IRS employees.	In process	Officials said that IRS developed databases of information on the results of assessments administered to measure employees' general competencies (e.g., communication and listening skills) and technical skills. Each of 22 field education branch offices managed a database and sent their data to a centralized database. When IRS' integrated personnel system is in place, these databases are to be integrated into it.
In 1998, have an intensive agencywide special training program to introduce employees to the new approach to customer service.	In process	IRS developed and piloted a course, but suspended it in late 1998 at the request of the National Treasury Employees Union (NTEU). The course was redesigned, and an official said that training was to resume in May 1999 and be completed by December 1999.

Appendix II
IRS' Progress on 25 Customer Service Improvement Initiatives

Over the long term, change how IRS selects, trains, evaluates, rewards, and supports its employees so they can better serve customers.	In process	Separate projects addressed the selection, training, evaluation, rewards, and support portions of this broad recommendation. For example, a pilot test was done using assessment instruments to measure the skills and abilities of applicants for customer service positions. A team proposed several ways to redesign IRS' performance management system, including how employees were evaluated and rewarded, and was awaiting feedback from management. Another team offered ways to implement a range of options (e.g., pay for performance and a streamlined external competitive selection process) that IRS could use to motivate and reward employees.
Work with NTEU to design and test a balanced scorecard to evaluate IRS and its employees in 1998.	In process	In 1998, IRS developed a measurement system that was intended to balance measures of business results with measures of customer and employee satisfaction. Implementation of the balanced measurement system in 1999 is to begin with new operational measurements for three key functions: customer service, examinations, and collections.
Improve national distribution of information to IRS employees.	In process	IRS communications activities were integrated into a single office. While awaiting completion of information management systems upgrades that would make distribution of information to employees quicker and easier, the office was making improvements on a smaller scale. For example, it began producing a newsletter, <u>New Directions</u> , which informed employees about IRS' modernization efforts.
To give small businesses a single point for reporting tax and wage data to meet the requirements of IRS, Social Security Administration, Department of Labor, and state agencies, continue to work to support the Simplified Tax and Wage Reporting Systems (STAWRS) program.	In process	According to officials, IRS organized and funded projects under three STAWRS initiatives: streamlined customer service, single-point filing, and simplified requirements.
By the end of 1998, eliminate additional unnecessary notices. This will eliminate more than 45 million pieces of mail annually, almost one-third of the total number of notices that IRS has been sending to taxpayers.	In process	By the end of 1998, IRS had eliminated 32 notices, which generated 22 million pieces of mail to taxpayers annually. Officials said that they are researching the possible elimination of five more notices that generate an additional 30 million pieces of mail.
Seek to route telephone calls from small businesses to specific individuals who have training and the authority to answer business tax questions and resolve tax account problems.	In process	IRS officials said that this initiative is being partially addressed through the call routing system available to all taxpayers. Additionally, they had planned to pilot test the use of a separate toll free telephone number for business calls. However, this project was deferred.
Give all locations the ability to input power-of-attorney authorizations and hold the person receiving the authorization responsible for ensuring the input.	In process	A regional advocate team examined this issue and reported on it in November 1998. The report was forwarded to the Taxpayer Advocate, National Accounts Section, and others for review. No decision had been made on whether to implement the initiative nationwide.
Track complaints, beginning immediately, using the Taxpayer Advocate's Problem Resolution Information System (PROMIS).	In process	As part of its test of a new customer feedback system, IRS was doing limited tracking of complaints.

Appendix II
IRS' Progress on 25 Customer Service Improvement Initiatives

Beginning in 1998, team up with other federal agencies, financial institutions, tax preparers, state and local authorities, and others to provide tax information, training, and consultative services to small start-up businesses. The initiative is designed to make record-keeping, filing, and payment requirements as simple and easy as possible.	In process	IRS had projects under way to address portions of this recommendation, including three projects with federal agencies to distribute tax information and a project with selected states to make obtaining federal identification numbers easier for new businesses.
Use a preemployment screening assessment tool, based on technical and behavioral skills, for all external applicants.	In process	Preemployment screening assessments were done for applicants for customer service positions at four pilot sites for the 1999 filing season, according to an IRS official.
Beginning in 1999, open additional temporary community-based locations during peak season to make publications and forms available in banks, libraries, shopping malls, and other locations.	In process	IRS was opening additional locations in libraries, post offices, and copy centers for distributing forms and publications in 1999.
Analyze the costs and benefits of handling all federal tax deposit penalties in one centralized location.	Deferred	Not Applicable
Reassign a case to the next higher management level when a complaint is unresolved after a reasonable period of time.	Deferred	Not Applicable
Standardize the format and content of written responses, using appropriate commercial software.	Deferred	Not Applicable

Comments From the Internal Revenue Service



COMMISSIONER

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

April 12, 1999

Ms. Margaret T. Wrightson
Associate Director, Tax Policy
and Administration Issues
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Wrightson:

Thank you for the opportunity to comment on GAO's report, IRS Customer Service: Management Strategy Shows Promise But Could Be Improved, which focuses on our near term efforts to improve taxpayer treatment and service. The report provides a fair and balanced assessment of our implementation strategy, recognizes the strategy's strengths and also shows us how it could be improved. You took the time to understand our efforts to strategically manage near term improvements and the need to set realistic priorities. In the comments below, I will first share my personal perspectives on the formidable implementation challenges we face, and then describe our plans for addressing your recommendations.

Limited Organizational Capacity Requires Strategic Prioritization

In my first months as Commissioner, the number of problems facing the Service was not as nearly surprising as the sheer volume of proposed solutions. There were literally thousands of proposals from a range of sources, including the National Partnership for Reinventing Government, the Restructuring Commission, Taxpayer Advocate Reports, Internal Revenue Service (IRS) workforce feedback and later, the legislative mandates from the IRS Restructuring and Reform Act of 1998. Unfortunately, the Service's organizational capacity for implementing initiatives is limited in terms of personnel and resources and is further constrained by its outmoded technology.

Today, IRS is simultaneously managing stay-in-business programs, such as Y2K, tax law changes and the filing season; making near term improvements in customer service and taxpayer treatment; and laying the groundwork for the long term modernization of business operations, organization, and technology. It requires a juggler's dexterity to keep all these balls in the air, and the combination of scope of effort and limited organizational capacity makes prioritization an absolute necessity.

I am gratified that your report recognized that prioritization was "a necessary first step to setting realistic goals based on IRS' capacity to take on additional responsibilities." I am also encouraged by your recognition of the steps we have taken to strategically manage the priorities we have chosen. As highlighted in your report, we have created a management oversight structure, aligned priorities with strategic goals and objectives, assigned executive accountability; and finally, provided staff support and on-line, interactive database tools to monitor progress on initiatives.

2

Results-Based Management—Costs, Benefits and Performance Measures

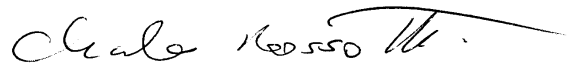
You made two recommendations for enhancing our customer service improvement strategy and I agree we need to address both areas. In fact, we have already begun to address your first suggestion that we capture information on expected costs and benefits for our improvement initiatives. We now require, for any proposed new initiative, an estimate of costs in a standard format as well as a description of opportunity costs. We also capture information on benefits by requiring a problem statement and an assessment of program impact. With regard to our current inventory of near term initiatives, we will add fields to our database to quantify estimated costs and benefits and allow for after-the-fact tracking.

In trying to build valuable cost/benefit data for individual initiatives, we are coping with several constraining factors. Your report constructively recognized the need to let scope and complexity drive the level of detail. Another constraint is the limitation in tracking precise costs because we lack an activity-based cost accounting system. Finally, our focus on customer service initiatives presents some challenges in estimating and precisely tracking benefits. Benefits associated with improved service are easy to identify conceptually, but more difficult to quantify. However, it is a challenge we welcome.

Your second recommendation was that we develop information to evaluate initiative results. I agree this is very important and I believe that the tools used in our new balanced measures program can and will be used to assess the impact of our service improvement initiatives. Clearly the customer and employee satisfaction surveys will help us determine the collective impact of our initiatives and, in some cases, get to very specific aspects. However, I recognize that this information will not give us initiative specific results in many cases. Therefore, where there are measurement gaps for particular initiatives, we will try to identify additional measures of immediate impact. I welcome your assistance in helping us design relevant measures.

As we determine what form the additional cost, benefit and measurement information should take, we will consult with you again to ensure our planned actions adequately address your concerns. Your report indicates a willingness to go beyond identifying problems and collaborate with us in developing pragmatic solutions. We will take advantage of that willingness and work with you to ensure the best possible management of our efforts to provide America's taxpayers with the top quality service they expect and deserve.

Sincerely,



Charles O. Rossotti

cc: National Director, Legislative Affairs Division
Assistant Inspector General for Audit

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