



*The Savings Used to Recommend Reducing
Toll-Free Telephone Hours of Operation Are
Not As Significant As Projected*

September 21, 2006

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 21, 2006

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Savings Used to Recommend Reducing
Toll-Free Telephone Hours of Operation Are Not As Significant As
Projected (Audit # 200640028)

This report presents the results of our review of the Internal Revenue Service's (IRS) plans to reduce the toll-free telephone hours of operation and the projected savings as a result of that reduction. This audit was mandated by a law that stated none of the Fiscal Year (FY) 2006 funds appropriated or otherwise made available to the IRS were to be used to reduce taxpayer services until the Treasury Inspector General for Tax Administration completes a study detailing the impact of proposed reductions on taxpayer compliance and services.¹

Impact on the Taxpayer

Each year, millions of taxpayers call the IRS toll-free telephone lines to seek assistance in understanding the tax law and meeting their tax obligations. As part of a cost-reduction strategy, in FY 2006, the IRS planned to reduce its daily toll-free telephone hours of operation from 15 hours to 12 hours. Reducing the number of hours taxpayers are able to reach the IRS through the toll-free telephone lines could reduce costs; however, the savings are not as significant as the IRS projected. While the IRS could save approximately \$914,000, approximately 2.5 million taxpayers (6 percent of the total FY 2005 volume) could be affected by a reduction in the number of hours they can obtain assistance through the toll-free telephone system.

¹ The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, Pub. L. No. 109-115, 119 Stat. 2396 (2005). Department of Defense Appropriations Act, Pub. L. No. 109-148, 119 Stat. 2680 (2005).



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Synopsis

Our analysis of the data the IRS used to make its decision to reduce toll-free telephone operating hours shows a savings of approximately \$18 million, or 410 Full-Time Equivalents (FTE),² for FY 2004. While the IRS used the most current data available at the time the original analysis was performed, current data indicate the savings potential would be considerably less. Using FY 2005 data, the most current complete data available at the time of this review, we determined the savings potential would be considerably less, approximately \$914,000 or 20 FTEs. The savings are reduced because the IRS implemented cost-saving measures and realized efficiency gains after FY 2004. In addition, there were minor errors in the FY 2004 calculations, and the expected savings were not recalculated when FY 2005 data became available.

Savings expected from reducing toll-free telephone hours of operation should have been re-calculated when updated data became available.

The IRS could not provide adequate documentation to support its decision to reduce hours. Therefore, we could not duplicate or validate many of the assumptions used. In addition, some of the documentation provided contained minor errors.

Additionally, steps were not taken to document the project's purpose, methodologies, or assumptions or to validate the data. While the IRS did conduct research over the Internet to determine posted hours of operation for several public and private organizations and did call several of them to question the assistants about their operating hours, the IRS did not contact management of those organizations to determine how or why those hours were selected. The IRS also did not pilot the reduction in toll-free telephone hours to test the validity of the assumptions or obtain taxpayer feedback. For example, it did not conduct focus groups to determine caller preferences or the impact that changing the hours would have on taxpayers.

At the request of Congress, the IRS, in consultation with the National Taxpayer Advocate and the IRS Oversight Board, is to conduct a 5-year study to focus on individual taxpayers and practitioner services and the associated delivery channels. The IRS has initiated the 5-year study, called the Taxpayer Assistance Blueprint, and will attempt to capture varying perspectives on customer services and develop informed and feasible yet creative approaches to address service delivery challenges. Phase 1 of this study was completed and the report delivered to Congress on April 24, 2006. The IRS reports that Phase 2 is on target for completion in October 2006. We believe the results of the Taxpayer Assistance Blueprint should be considered when making a major business decision significant to taxpayer services.

² An FTE is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2006, 1 FTE is equal to 2,080 staff hours.



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There is a risk that Assistor Availability³ could be adversely affected if taxpayers' calling patterns do not occur proportionally throughout the day, as the IRS projected. However, we believe this risk is lessened because of the knowledge and experience of the staff of the Joint Operations Center and their recent history of managing taxpayer calls. Due to insufficient data, neither the IRS nor we are able to determine the impact that changing hours would have on taxpayer compliance.

Recommendations

If the IRS decides to change toll-free telephone hours of operation, we recommended that, before proceeding with the change, the Commissioner, Wage and Investment Division, update the proposal with the most current data available and provide the updated information on the proposal as well as the associated cost savings to external stakeholders. The Commissioner should also complete the Taxpayer Assistance Blueprint before taking any action to change toll-free telephone hours, so taxpayer preferences and needs can be taken into consideration. Finally, complete documentation should be maintained to support significant business decisions, particularly those affecting taxpayer services.

Response

The Commissioner, Wage and Investment Division, agreed with our recommendations. If the decision is made to change the toll-free telephone hours of operations, the proposal will be updated with the most current data available to determine the savings and customer impact. However, before making any changes to the toll-free telephone hours, taxpayer preferences identified by the Taxpayer Assistance Blueprint will be considered. In addition, complete documentation to support significant decisions will be maintained. However, the Commissioner did not agree with our outcome measure, stating that the assumptions used had changed for FY 2005. Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

We used the IRS methodology to determine the savings projected from reducing toll-free telephone hours of operation; however, we updated the calculations using the most current data available. The IRS could not provide us with complete documentation of all assumptions used; therefore, we could not completely duplicate the methodology the IRS used. In addition,

³ Assistor Availability is the amount of time that assistors are idle or available to answer calls.



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during the audit, the IRS did not provide us with any new data to support that the assumptions had changed or what the new assumptions would be.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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Abbreviations

FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
W&I	Wage and Investment



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Background

As part of a cost-reduction strategy, in Fiscal Year (FY) 2006, the Internal Revenue Service (IRS) planned to reduce its daily toll-free telephone hours of operation from 15 hours to 12 hours. Currently, taxpayers can call the toll-free telephone lines and reach an assistor from 7 a.m. to 10 p.m. local time. The recommendation was to change the hours taxpayers can reach an assistor to 8 a.m. to 8 p.m. local time. The IRS reported that reducing the hours and restricting a caller to local time zones would allow the IRS to eliminate approximately 410 Full-Time Equivalents (FTE),¹ which would save approximately \$20 million.² The IRS had planned to implement the new toll-free telephone operating hours in October 2005 and briefed the National Treasury Employees Union about the reduction on June 7, 2005.

However, due to concerns raised by the National Treasury Employees Union and the National Taxpayer Advocate over the proposed closing of several Taxpayer Assistance Centers³ nationwide, Congress enacted legislation on November 30, 2005,⁴ restricting the IRS from reducing taxpayer services until the Treasury Inspector General for Tax Administration had completed a study of the proposed changes. Congress further defined a reduction of taxpayer service to include limiting available hours of telephone taxpayer assistance on a daily, weekly, and monthly basis to those levels in existence during October 2005.⁵ Therefore, the IRS did not reduce its toll-free telephone hours during the 2006 Filing Season,⁶ and we initiated a review of the IRS data used to support the proposed reduction in hours.

¹ An FTE is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2006, 1 FTE is equal to 2,080 staff hours.

² The IRS calculated savings of approximately \$18.4 million but rounded this figure to \$20 million in its proposal to reduce toll-free telephone hours.

³ Taxpayer Assistance Centers are local IRS offices where taxpayers can obtain face-to-face assistance with tax matters.

⁴ The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, Pub. L. No. 109-115, 119 Stat. 2396 (2005).

⁵ Department of Defense Appropriations Act, Pub. L. No. 109-148, 119 Stat. 2680 (2005).

⁶ The period from January through mid-April when most individual income tax returns are filed.



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Each year, millions of taxpayers call the IRS toll-free telephone lines to seek assistance in understanding the tax law and meeting their tax obligations. These calls involve tax law and other related tax account questions on refunds, balance-due billing activity, and changes to the amount of tax owed.

The Accounts Management function and Joint Operations Center have overall responsibility for the IRS' tax account and tax law toll-free telephone services. The Accounts Management function oversees the assistors in the call sites. The Joint Operations Center serves as the central control organization for all of the IRS' toll-free telephone call routing. It uses intelligent call management software to control and route calls to call sites and assistors who are available to answer the calls.

Because of the complexity of the tax law and the need to serve millions of taxpayers with tax questions, the IRS divides the types of questions commonly received on the toll-free telephone lines into categories called "applications." Each application is staffed with a group of assistors that have received specialized training to assist taxpayers with specific tax issues. For example, if an individual taxpayer calls to find out where to mail a tax return, the call would be routed to an assistor who has been trained to handle IRS procedural issues for individual taxpayers. If a taxpayer calls to find out the tax due on a business account, the call would be routed to an assistor who handles balance-due questions for the business taxpayer.

This review was performed in the Customer Account Services function and the Joint Operations Center of the Wage and Investment (W&I) Division in Atlanta, Georgia, during the period January through June 2006. Certain information needed to evaluate the IRS' process and validate the data used to recommend a reduction in toll-free telephone operating hours was not available. These matters are discussed in further detail in the Results of Review section. With the exception of these impairments, the audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

**During FY 2005,
10,614 IRS customer service
representatives (called
assistors) at 25 call centers
located throughout the United
States and Puerto Rico
answered over 33.3 million calls
to the IRS.⁷**

⁷ These calls were made to the suite of 16 telephone lines the IRS refers to as "Customer Account Services Toll-Free."



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Results of Review

Productivity and Efficiency Gains Realized in Fiscal Year 2005 Reduced Projected Savings

Our analysis of the data the IRS used to make its decision to reduce toll-free telephone operating hours shows a savings of approximately \$18 million, or 410 FTEs, for FY 2004. While the IRS used the most current data available at the time the original analysis was performed, current data indicate the savings potential would be considerably less. Using FY 2005 data, the most current complete data available at the time of this review, we determined the savings potential from reducing toll-free telephone hours of operation would be considerably less, approximately \$914,000 or 20 FTEs.

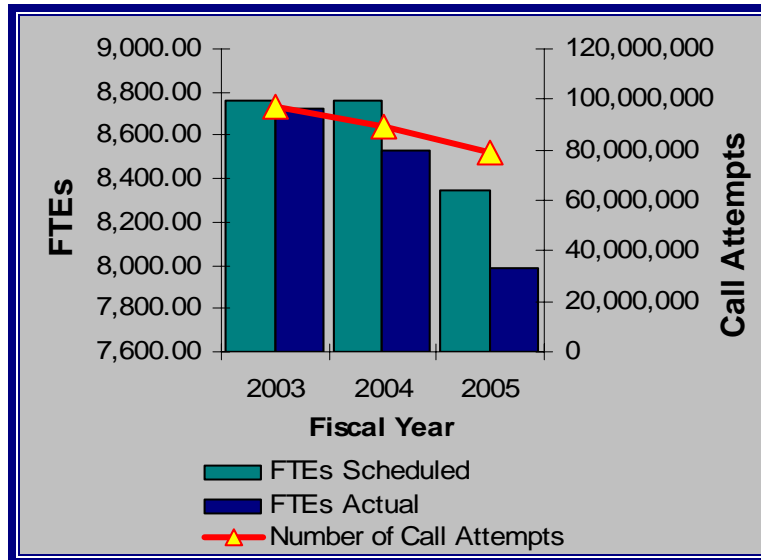
The savings are reduced because the IRS implemented cost-saving measures and realized efficiency gains after FY 2004. In addition, there were minor errors in the calculations used to estimate the FY 2004 savings, and the expected savings were not recalculated when FY 2005 data became available.

Since FY 2003, taxpayers have reduced the number of call attempts to the toll-free telephone lines, and the IRS has reduced the number of FTEs budgeted for the toll-free telephone operations. In FY 2005, the IRS reduced FTEs by approximately 400, even though it did not reduce the hours of operation. Figure 1 illustrates the decline in FTEs planned and actually used for FYs 2003–2005, as well as the continued decline in call attempts.



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**Figure 1: Comparison of FTEs for
FYs 2003–2005**



Source: *The IRS Enterprise Telephone Data Warehouse.*

In FY 2005, the IRS was more efficient and answered more calls per FTE compared to FY 2004. Assistor Availability, which measures the amount of time that assistors are idle or available to answer calls, positively declined 43 percent, from 9.9 percent in FY 2004 to 5.6 percent in FY 2005. When Assistor Availability is low, assistors' time is being productively used and the cost of providing toll-free telephone services decreases.

To further increase efficiency and reduce taxpayer burden, in FYs 2005 and 2006, the IRS planned to combine 16 toll-free telephone applications into 8 larger Agent Groups.⁸ Combining applications improves the customer experience because it helps reduce the need to transfer callers with multiple questions on related issues. It may also reduce the length of time callers have to hold before speaking with assistors. The Accounts Management function refined telephone scripts in 2005 and 2006 to help customers successfully navigate to the right resource based on the menu selection made and will continue to refine these scripts. These changes could result in more effective use of assistor resources and would help further reduce taxpayer burden and frustration.

Additionally, the IRS took other cost-saving actions, such as closing the Chicago, Illinois, and Houston, Texas, toll-free telephone call sites. These sites had been slated for closure since the 1990s; therefore, the IRS had not filled vacancies for employees that retired, transferred, or otherwise left. Closing these two offices was invisible to callers and had little impact on

⁸ Toll-free telephone assistors who are grouped together according to the tax topics they are responsible for answering.



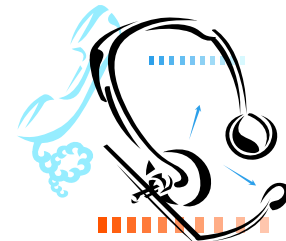
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customer service. The volume of calls handled by these 2 sites was less than 1 percent of the total calls received and could easily be absorbed by the remaining call sites.

The IRS has experienced slight declines in certain measures over the last two filing seasons

The IRS stated that being unable to reduce the toll-free telephone hours of operation from 15 hours to 12 hours a day while trying to maintain the same Level of Service⁹ was not without additional costs. The Customer Account Services function's planning assumptions called for reducing toll-free telephone operating hours from 15 hours to 12 hours—requiring fewer IRS assistors to staff the telephones. When the reduction in operating hours was not implemented, the expected savings were restored and used to increase overtime to answer the telephones. In addition, resources used to answer paper correspondence were diverted to the toll-free telephones lines. This allowed the IRS to meet its 2006 Filing Season Level of Service goal.

Calls answered per FTE declined by approximately 7 percent in the 2006 Filing Season. In addition, assistors took longer to complete calls, more calls were blocked, and more taxpayers abandoned calls.¹⁰ However, callers waited less time to speak with an assistor (measured by the IRS as the Average Speed of Answer). See Appendix V for a table comparing select measures for the 2003–2006 Filing Seasons.



The complexity of callers' issues has contributed to the length of time it takes to complete a call. The complexity of calls answered by assistors is expected to continue to increase as more of the simple calls are routed to automated services (such as "Where's My Refund"), alternative language services are expanded, and assistors handle topics previously referred to Compliance function personnel.

The Internal Revenue Service Could Not Provide Adequate Documentation to Support All Assumptions and Estimates Used in Its Decision to Reduce Toll-Free Telephone Hours of Operation

Although the data used to recommend a reduction in toll-free telephone operating hours were generally valid, the IRS could not provide adequate documentation to support all assumptions and estimates. In addition, the IRS used estimates when actual figures were available, and the documentation used to promote the reduction in toll-free telephone hours of operation contained inaccuracies.

⁹ Level of Service is the IRS' primary measure of providing taxpayers with access to a live assistor.

¹⁰ A blocked call is one that cannot be connected immediately because either no circuit is available at the time the call arrives (the caller receives a busy signal) or the system is programmed to block calls from entering the queue when there are more callers waiting to speak to a live assistor than a predefined threshold (the caller receives an announcement to call back at a later time).



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We were unable to duplicate or validate all assumptions and estimates because the IRS was unable to provide sufficient documentation for the data it used to calculate the potential cost savings and support the recommendation. For example:

- There was little or no documentation to support that taxpayers would call back proportionally throughout the day or that 8 a.m. to 8 p.m. would be the most efficient time period with the least adverse impact on taxpayers. We could not validate these assumptions, although we do not believe they are unrealistic. The IRS stated it projected the calling patterns for a reduction in hours using the knowledge and information gained in FY 2001 when it changed the toll-free telephone hours of operation from 24 hours to 15 hours a day. However, if calls are not received as anticipated, there is a risk that insufficient staff will be available to answer the calls and taxpayers will either have to call back or experience increased hold time.
- Estimates were used to calculate the \$45,000 salary cost and the 45 percent overhead rate to determine the FTE savings. We could not duplicate or validate these FY 2004 figures.
- There was no documentation to support that the IRS had analyzed yearly and peak week call volume data for all call sites for FYs 2002–2003 to obtain a baseline for analysis. The IRS acknowledged documentation was not available but stated it had analyzed the data and decided to include only the 2004 analysis in the documentation and decision-making process. Systemic changes to the toll-free telephone operations made FY 2002 data incomplete, and both FYs 2002 and 2003 were incompatible with subsequent years. The IRS stated these data were not included because they would have skewed the results.

Additionally, steps were not taken to:

- Document the project's purpose, methodologies, or assumptions. The IRS stated that reducing toll-free telephone hours was one of several recommendations resulting from the project to consolidate the Small Business/Self-Employed and the W&I Divisions' Customer Account Services functions. The two functions merged into one function under the W&I Division. One of the objectives of the consolidation was to identify efficiencies within the organization after the merger. Therefore, the IRS stated that general project documentation guidelines did not apply to the recommendation to reduce toll-free telephone hours.
- Validate the data.
 - Formulas in the spreadsheets contained minor errors.
 - The calculation used to determine the night differential¹¹ was inaccurate; however, it did not significantly affect the projected FY 2004 savings.

¹¹ Night differential is the additional salary paid as incentive for regularly scheduled work performed between 6:00 p.m. and 6:00 a.m.



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- The information in the white paper¹² and Microsoft PowerPoint® presentation the IRS used to promote its recommendation to reduce toll-free telephone hours of operation was not accurate. For example, the documents incorrectly stated the number of hours taxpayers can reach an IRS toll-free telephone assistant. The PowerPoint presentation stated taxpayers can currently reach an assistant 18 hours a day. The white paper stated taxpayers could actually reach an assistant 19 hours a day.

Current operational hours are from 7 a.m. to 10 p.m. (central time zone), and are not limited [to] a caller's local time zone. This means that a caller could actually reach an IRS agent from 5 a.m. to 1 a.m.

Since October 2001, toll-free telephone hours of operation have been from 7 a.m. to 10 p.m. local time. This means a caller is already limited to his or her local time and can reach an IRS assistant only 15 hours a day. Therefore, the IRS was reducing the hours of operation from 15 hours to 12 hours, not 18 hours or 19 hours to 12 hours a day.

- Contact other agencies to obtain best practices. The IRS did conduct research over the Internet to determine posted hours of operation for several public and private organizations. The IRS also called several of the telephone numbers listed on those Internet sites and questioned the assistants about their operating hours. However, no contact was made with the management of those organizations to determine how or why those hours were selected.
- Pilot the reduction in toll-free telephone hours to test the validity of the assumptions. The IRS stated it would be very difficult to implement a pilot to test proposed changes due to the intricacies of scheduling and difficulties in advertising the pilot.
- Did not obtain taxpayer feedback. For example, the IRS did not conduct focus groups to determine caller preferences or the impact that changing the hours would have on taxpayers. At the request of Congress, the IRS is currently conducting a 5-year study (the Taxpayer Assistance Blueprint) to better define taxpayers' preferences.
- Determine the number of taxpayers potentially affected. IRS documentation estimated approximately 7 percent of the calls received on the toll-free telephone lines are received during the hours of operation that were to be eliminated. When asked, the IRS responded that it maintains data on the number of services provided but not on the number of calls received. Therefore, it could not provide data on the number of taxpayers that would be affected by the change in hours.

After discussions with the IRS, we obtained the data for and attempted to validate the 7 percent figure and determine the number of taxpayer calls made outside the 8 a.m. to 8 p.m. hours in FY 2005. Approximately 2.5 million calls (6 percent) of the 42.6 million call

¹² Undated document prepared by an IRS contractor to report the recommendations, entitled "Toll Free Reduction in Operating Hours."



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attempts were received on the Customer Account Services function toll-free telephone lines outside the 8 a.m. to 8 p.m. hours.

The IRS stated that personnel in the Joint Operations Center and others involved in the proposal to reduce operating hours have vast knowledge of and experience with the toll-free telephone operations and are generally able to calculate program trends, patterns, and milestones fairly accurately. There are no specific guidelines to follow when making major business decisions. For example, there are no guidelines requiring them to document the decision-making process or prepare a business case for such decisions.

Although we have found the Customer Account Services function's planning process for the toll-free telephone operations is generally effective and the function does a good job of monitoring the toll-free telephone operations, it is still sound business practice to document and validate business decisions that significantly affect taxpayers and customer service. Without documentation, the results, recommendations, and decisions cannot be validated.



Using a more systematic approach would have alleviated many of the concerns and issues identified. Conducting a pilot to gauge taxpayers' reactions or focus groups to determine taxpayers' needs and desires would decrease the risk that the reduction in hours could negatively affect taxpayers and achievement of the IRS' goals and measures. In addition, had documentation been created and retained to support the IRS' decision to reduce the toll-free telephone operating hours, we would not have had to recreate the data as well as validate it. The time it took to accomplish this delayed the IRS in implementing final decisions about reducing toll-free telephone hours of operations.

At the request of Congress, the IRS, in consultation with the National Taxpayer Advocate and the IRS Oversight Board, is to conduct a 5-year study to focus on individual taxpayers and practitioner services and the associated delivery channels. The IRS has initiated the 5-year study, called the Taxpayer Assistance Blueprint, and will attempt to capture varying perspectives on customer services and develop informed and feasible yet creative approaches to address service delivery challenges. Phase 1 of this study was completed and the report delivered to Congress on April 24, 2006. The IRS reports that Phase 2 is on target for completion in October 2006.

Although the IRS may save costs by reducing the toll-free telephone operating hours, neither we nor the IRS have sufficient data to determine the number of taxpayers that would be affected or the impact this change would have on compliance. The FY 2005 data show a savings of \$914,000 would affect those taxpayers that made the 2.5 million calls outside the 8 a.m. to 8 p.m. hours of operation. However, the IRS must decide how this savings corresponds to the IRS' budget and taxpayer assistance goals, including taxpayers' needs and desires.



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Given the importance of the Taxpayer Assistance Blueprint in determining how best to meet taxpayer needs and preferences, we believe no action should be taken to change toll-free telephone hours of operation until the Taxpayer Assistance Blueprint is completed and can be incorporated into the decision-making process.

Recommendations

The Commissioner, W&I Division, should:

Recommendation 1: Complete the Taxpayer Assistance Blueprint before taking any action to change toll-free telephone hours, so taxpayer preferences and needs can be taken into consideration.

Recommendation 2: Update the proposal with the most current data available if the decision is made to change toll-free telephone hours of operation and provide the updated information on the proposal, as well as the associated cost savings, to external stakeholders before proceeding with any changes to the toll-free telephone hours.

Recommendation 3: Ensure complete documentation is maintained to support significant business decisions, particularly those affecting taxpayer services.

Management's Response: The Commissioner, W&I Division, agreed with our recommendations. Before making any changes to the toll-free telephone hours, the IRS will review taxpayer preferences as identified by the Taxpayer Assistance Blueprint. If the decision is made to change the toll-free telephone hours of operations, the proposal will be updated with the most current data available to determine the savings and customer impact. In addition, complete documentation to support significant decisions will be maintained. However, the Commissioner did not agree with our outcome measure, stating that the assumptions we used for our calculations had changed for FY 2005.

Office of Audit Comment: We used the IRS methodology to determine the savings projected from reducing toll-free telephone hours of operation; however, we updated the calculations using the most current data available. The IRS could not provide us with complete documentation of all assumptions used; therefore, we could not completely duplicate the methodology the IRS used. In addition, during the audit, the IRS did not provide us with any new data to support that the assumptions had changed or what the new assumptions would be.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the IRS' plans to reduce the toll-free telephone hours of operation and the projected savings as a result of that reduction. To accomplish this objective, we:

- I. Determined and assessed the process used by the Customer Account Services function supporting the decision to reduce toll-free telephone hours of operation. We interviewed IRS officials and the independent contractor involved in the project and reviewed all available documentation supporting the recommendation to reduce toll-free telephone hours.
- II. Determined concerns stakeholders had with the proposed reduction in toll-free telephone hours. We reviewed the web sites for Congress, the National Treasury Employees Union, and the National Taxpayer Advocate for any documentation related to the reduction. We also interviewed an official in the National Taxpayer Advocate's office.
- III. Determined if the methodology and data used to support the proposal were accurate, were sound, and provided consistent results. We reviewed the analysis and documentation for FY 2004 provided by the IRS and, because the data were not provided for the analysis of FYs 2002 and 2003, extracted and reanalyzed the data for those years. We also extracted and analyzed the data for FY 2005, the most current year for which data were available. We compared the projected savings using various alternative hours of operation, calculated the average salary and overhead costs, and compared this information to the figures used by the IRS. We also consulted with a statistician to determine if the formulas and structure of the IRS methodology were sound and logical.
- IV. Attempted to determine the potential effect the reduction might have on taxpayers. We used call volume data provided by the IRS to calculate the number of calls received during the hours that were planned to be eliminated. We validated the data by verifying the record count, querying the data received to determine that only those calls with call disposition codes indicating that calls were routed to assistors were received, reviewing data fields of the records received, and discussing any discrepancies with Treasury Inspector General for Tax Administration Office of Information Technology personnel and IRS officials.
- V. Assessed the potential impact on customer service of closing the Chicago, Illinois, and Houston, Texas, call sites.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

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Patricia Jackson, Auditor

Joseph Butler, Information Technology Specialist

Jeffrey Williams, Information Technology Specialist



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Joint Operations Center, Wage and Investment Division SE:W:CAS:JOC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:SA



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; \$17.5 million, representing 389.7 FTEs¹ (see page 3).

Methodology Used to Measure the Reported Benefit:

To determine the potential savings created by reducing toll-free telephone hours of operation, the IRS used FY 2004 data and calculated the number of FTEs that could be saved. The IRS data used were recorded in half-hour increments that needed to be converted into hours to calculate the FTEs. However, the IRS did not convert the night differential² calculation into hours as it had for all other calculations. The IRS estimated potential savings of \$18.4 million or 409.7 FTEs. When the night differential is converted to hours, the savings would be \$17.5 million or 387.8 FTEs, a difference of \$900,000 or 21.9 FTEs.

In addition, during the preparation and presentation of the recommendation to reduce toll-free telephone hours of operation, more current data had become available. The IRS did not update its data to include the more current information in its proposal. Using FY 2005 data, the potential savings would drop from \$18.4 million or 409.7 FTEs to \$914,000 or 20 FTEs, a difference of \$16.6 million or 367.8 FTEs.

Therefore, the total outcome measure after combining the \$900,000 (21.9 FTEs) from the night differential error and the \$16.6 million (367.8 FTEs) from the use of outdated data equals \$17.5 million (389.7 FTEs).

¹ An FTE is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2006, 1 FTE is equal to 2,080 staff hours.

² Night differential is the additional salary paid as incentive for regularly scheduled work performed between 6:00 p.m. and 6:00 a.m.



*The Savings Used to Recommend Reducing
Toll-Free Telephone Hours of Operation Are
Not As Significant As Projected*

Appendix V

*Comparison of Select Performance Measures
for the 2003–2006 Filing Seasons¹*

Customer Account Services Toll-Free²	2003	2004	2005	2006
Level of Service³	82.4%	85.0%	81.8%	82.0%
Average Speed of Answer (in seconds)⁴	175	184	255	213
Tax Law	194	163	188	223
Tax Accounts	139	203	299	215
Customer Account Services Function Assistor Calls Answered (in millions)	15.0	16.8	15.6	14.6
Assistor Calls Answered per Toll-Free Telephone Operations Direct FTEs⁵	5,037	5,454	5,434	5,054
Total Blocked Calls⁶	731,657	514,569	920,787	1,336,721
Busy Signals	244,982	150,027	296,736	215,150

¹ Due to changes in the methodology the IRS used to capture toll-free telephone data, the totals for previous filing seasons in this chart may not equal the totals presented in previous Treasury Inspector General for Tax Administration reports. The filing season is the period from January through mid-April when most individual income tax returns are filed.

² “Customer Account Services Toll-Free” refers to the suite of 16 telephone lines the IRS refers to as “CAS Toll-Free.” Performance data are for Customer Account Services Toll-Free telephone assistance lines from January 1 through April 17, 2006, and comparable dates in prior years.

³ Level of Service is the IRS’ primary measure of providing taxpayers with access to a live assistor.

⁴ Average Speed of Answer is the average number of seconds taxpayers waited in the queue (on hold) before receiving services.

⁵ An FTE is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2006, 1 FTE is equal to 2,080 staff hours.

⁶ A blocked call is one that cannot be connected immediately because either no circuit is available at the time the call arrives (the caller receives a busy signal) or the system is programmed to block calls from entering the queue when there are more callers waiting to speak to a live assistor than a predefined threshold (the caller receives an announcement to call back at a later time).



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Customer Account Services Toll-Free²	2003	2004	2005	2006
Courtesy Disconnects⁷	429,943	354,892	624,051	1,121,571
Selected Expanded Access⁸	56,732	9,650	N/A	N/A
Percentage of Primary Abandons⁹ to Total Attempts¹⁰	12.9%	13.7%	12.8%	14.3%
Primary Abandons (in millions)	5.6	7.1	5.5	6.2
Total Attempts (in millions)	44.0	51.7	43.1	43.7

Source: IRS Enterprise Telephone Data Warehouse.

⁷ Courtesy disconnects were introduced in FY 2003; they occur because the system has been programmed to block calls from entering the queue when the queue backs up beyond a defined threshold and the caller receives a recorded announcement to call back at a later time.

⁸ The Selected Expanded Access is a system that allowed a taxpayer to receive automated services in lieu of a busy signal during periods of peak demand. It was discontinued in FY 2005 because network prompting now identifies upfront where to route the calls and sends them directly to assistors. N/A = not applicable.

⁹ The IRS refers to a call that disconnects before reaching the queue as a primary abandon.

¹⁰ Due to rounding for all figures in the table, calculations using the amounts in the following section will not total the percentages listed here.



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Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
SEP 15 2006

September 14, 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Savings Used to Recommend
Reducing Toll-Free Telephone Hours of Operation Are Not As
Significant As Projected (Audit # 200640028)

I have reviewed the subject draft report and appreciate your recognition of the knowledge and experience of the Joint Operations Center Staff and their history of managing taxpayer calls. I agree with your recommendations.

Although changes in toll-free hours of operations from 15 hours to 12 hours per day were considered, they were not implemented. Throughout the filing season, IRS provided 15 hours of service. The IRS answered over 14.6 million assistor calls and an additional 18.5 million automated calls during the past filing season and provided an 82 percent level of service. We also achieved 90 percent tax law and 93 percent accounts accuracy rates, which were all time highs for these performance metrics. Customer satisfaction survey results reflect that 94 percent of all callers were mostly satisfied or completely satisfied with IRS telephone services.

When IRS made the decision to change our toll-free hours of operation, the most current full year data available to us was for Fiscal Year (FY) 2004. Consequently, we used FY 2004 data along with applicable FY 2004 business assumptions to calculate the projected cost savings of changing our hours of operation. The audit team used FY 2005 data, but with the same FY 2004 assumptions to calculate their cost savings of changing toll-free hours. However, some of the FY 2004 assumptions are not applicable to FY 2005 data due to changes in the toll-free environment, such as customer calling behavior and updated routing schemas. While we agree that the savings are less than we originally projected, the audit calculation did not incorporate appropriate FY 2005 assumptions.

Efficiently managing the toll-free telephone environment is an art of balancing demand with available resources to produce the best outcome possible for the customer and the Service. We strive to do that each year by making improvements that positively impact



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Toll-Free Telephone Hours of Operation Are
Not As Significant As Projected*

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the customer within the constraints of our funding and resources. We evaluate all measures in toll-free when assessing service delivery. For example, you reported that more customer calls were blocked and more taxpayers disconnected (i.e., hung up). While more taxpayers disconnected while navigating through the automated scripts, approximately 90 percent of that increase can be attributed to taxpayers disconnecting when asked to provide their Social Security number while inquiring about the status of their refunds through the automation system. Overall, customer service improved in that fewer customers hung up while waiting in queue for an assistor after navigating through the automation system. Once in queue, customers waited less time to receive assistance as the Average Speed of Answer was 213 seconds, 42 seconds faster than in 2005.

While we have retained copies of the performance data used when we initially made the decision to change our toll-free hours of operation, I agree that it may be appropriate to maintain more comprehensive documentation to support major business decisions involving changes to taxpayer services.

You also recommend that we complete the Taxpayer Assistance Blueprint (TAB) before taking any action to change the toll-free telephone hours so that taxpayer preferences and needs can be taken into consideration. I agree with this recommendation. We will consider the findings and recommendations from the TAB team in any future decisions regarding changes to toll-free hours of operation.

For the reasons previously stated, I do not agree with the Outcome Measure as stated in Appendix IV.

Our detailed comments to your recommendations are attached. If you have any questions, please contact me at (404) 338-7060, or members of your staff may contact Betsy Kinter, Director, Customer Account Services, at (404) 338-8910.

Attachment



*The Savings Used to Recommend Reducing
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Attachment

RECOMMENDATION 1

The Commissioner, W&I Division, should if the decision is made to change toll-free hours of operation, update the proposal with the most current data available and provide the updated information on the proposal as well as the associated cost savings to external stakeholders before proceeding with any changes to the toll free hours.

CORRECTIVE ACTION

We agree with this recommendation. If we revisit changing the toll-free telephone hours of operation, we will use the most current data available to determine savings and customer impact.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

Director, W&I Customer Accounts Services

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, W&I Division, should ensure that complete documentation is maintained to support significant business decisions, particularly those affecting taxpayer services.

CORRECTIVE ACTION

We agree with this recommendation and we will maintain complete documentation to support significant business decisions, particularly those affecting taxpayer services.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A



*The Savings Used to Recommend Reducing
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RECOMMENDATION 3

The Commissioner, W&I Division, should complete the Taxpayer Assistance Blueprint before taking any action to change toll-free telephone hours so that taxpayer preferences and needs can be taken into consideration.

CORRECTIVE ACTION

We agree with this recommendation and we will review taxpayer preferences as identified by the Taxpayer Assistance Blueprint before making any changes to the toll-free telephone hours.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

Director, W&I Customer Accounts Services

CORRECTIVE ACTION MONITORING PLAN

N/A